

APPENDICES

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(IN SEVEN VOLUMES)

[volume III]

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Foreword

The Commission on the Organization of the Government for the Conduct of Foreign Policy has benefited greatly from the studies and analytic papers submitted to it by scholars and experts in various fields. Many of these contributions are published in this and companion volumes as appendices to the Commission Report. They are offered to the public in the hope of stimulating further discussion and analysis of the difficult issues of government organization to meet new needs. The views expressed, however, are the authors' own; they should not be construed to reflect the views of the Commission or of any agency of the government, Executive or Congressional. The views of the Commission itself are contained solely in its own Report.

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**Appendix H:
Case Studies on U.S. Foreign Economic
Policy: 1965-74**

Introduction

Appendix H is the report of a major research project carried out for the Commission by Griffenhagen-Kroeger, Inc., under the direction of Edward K. Hamilton. The project was one of a series designed to assess the adequacy of current organizational arrangements for the formulation and conduct of foreign policy.

The study consists of analyses of some twelve cases of recent U.S. policymaking, concerning international trade, foreign assistance, monetary policy and "domestic" matters having important foreign consequences. The implications and conclusions of the case studies are analyzed in the first chapter, in which that analysis is augmented by Mr. Hamilton's own reflections on various organizational concepts and on the criteria appropriate to the choice of organizational arrangements. Conclusions are offered with respect to problems of organization at the White House level and in the major agencies with responsibilities for foreign economic policy.

**APPENDIX H:
CASE STUDIES ON U.S. FOREIGN ECONOMIC
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Cases on a Decade of U.S. Foreign Economic Policy: 1965-74

Griffenhagen-Kroeger, Inc.
November 1974

FOREWORD

This document contains one of several series of research studies sponsored by the Commission on the Organization of the United States Government for the Conduct of Foreign Policy. It is designed to be of use in connection with the Commission's statutory mandate "to submit findings and recommendations to provide a more effective system for the formulation and implementation of the nation's foreign policy." The case studies herein concentrate upon the subjects traditionally grouped under the heading "foreign economic policy," although, as we conclude in the summary chapter, there is ample reason for suspicion that such traditional groupings have outworn their usefulness.

The cases were chosen in the hope that they would shed light upon the intensely practical problem posed by the Commission's specifications, which included this effort among those sponsored in order to determine "the adequacy of current organization". The study methodology included the following steps:

1. Preparation of a chronology of major events and decisions during the past decade of foreign economic policy.

2. Selection of cases according to explicit criteria designed to blend diversity with representativeness and coverage of major subject areas and historical periods.

3. Survey of the relevant academic and popular literature (which, because of the recentness of most of the objects of inquiry, was generally sparse).

4. Extensive interviews with participants in the decision institution selected, using a standard interview format expressly developed for the purpose.

5. Preparation of a first draft of each case study,

according to a general outline worked out in cooperation with members of the Commission staff and investigators working in other subject areas.

6. Review of each first draft by an internal panel of members of the research team, followed by preparation of a second draft.

7. Review of the second draft and an outline of the final, integrating chapter by a panel of nationally-recognized experts drawn from universities, from government, and from private business.

8. Revision of the second draft of each study to produce a third and final draft, and final drafting of the integrating chapter.

9. Publication of the final document.

The researchers' first—and often most difficult—task throughout this process was to keep firmly in mind that the Commission's primary need was for analysis of the structures and processes through which policy is made and implemented, not unrelated discussion of the substance of policy. Some substantive analysis is necessary to any sensible presentation of facts and outcomes. Nevertheless, the primary charge was not to be diverted by the constant temptation to produce a treatise on international economic relations, but rather to inquire into the effects of actual and possible alternative organizational arrangements upon the form, timing, and substance of a representative set of policy decisions. Thus, the reader will find that these structural questions are made the focus of each discussion, though always in full knowledge that formal organization is never wholly determinative of policy and is sometimes almost entirely irrelevant. We believe that the results justify the confidence of the Congress and the Commission that such inquiries are nevertheless feasible and instructive.

It is obvious that none of the case studies could have been performed without the cooperation of scores of present and former participants in the

policy process, whose records and recollections constitute the only detailed and reliable sources of data with respect to the events and decisions examined. The researchers are profoundly grateful for the large amounts of time and effort which these busy people provided in connection with this enterprise. Although a list of the hundreds of people interviewed cannot be included here, we hope that they will accept a general note of deep appreciation as though it were the individual recognition which each deserves.

We are also particularly grateful to the experts who reviewed drafts and provided thoughtful criticisms which, in our judgment, substantially improved the quality of the final document. These authorities included Francis M. Bator of Harvard University; Richard N. Cooper of Yale; William Casey, President of the Export-Import Bank, and a member of the Commission; J. M. Destler of the Brookings Institution; Nathaniel McKittrick, an in-

dependent consultant; Robert V. Roosa of Brown Brothers Harriman; Anthony M. Solomon, former Assistant Secretary of State for Economic Affairs, and Sydney Weintraub, a senior official in the Department of State. The individual and collective wisdom of their group was invaluable in the preparation of each study, although responsibility for the final text rests entirely with us.

The completed document is transmitted to the Commission in the belief that it provides a wealth of factual data about the workings of current organizational arrangements and a store of analysis, interpretation, and informed speculation which will be of practical use in the Commission's deliberations. Griffenhagen-Kroeger, Inc., is pleased to be a part of this critically important project.

EDWARD K. HAMILTON
President

Summary Report: Principal Lessons of the Past Decade and Thoughts on the Next

Edward K. Hamilton
November 1974

I. INTRODUCTION

The case discussions dramatize the most formidable challenge to the organizational architect: the fact that the substance of "foreign economic" policy is increasingly indistinguishable from what has been called "political" policy and, perhaps even more important, from what has traditionally been perceived as "domestic" policy. Without exception, the cases confirm that such distinctions are increasingly inconsistent with reality, but that the institutions created for policy formulation and execution remain largely based upon them. Moreover, the cases give cause for real doubt that significant improvement would result from any simple realignment of organizational lines designed to redistribute the present universe of roles, responsibilities, and types of expertise. Where there is reasonable consensus that the United States has been successful in achieving its objectives, the result has owed much to efforts to widen and deepen the scope of relevant concerns taken into account in the decision process. The most obvious failures, on the other hand, have generally reflected a narrow conception of the objectives sought and a correspondingly narrow organizational channel of significant involvement. Repeatedly, we find that the crucial point of action or inaction is at the traditional organizational seams of the process, the points of interface between perspectives, between professional specialties, and between constituencies.

Yet, the record also shows considerable awareness of this phenomenon and a fairly rich variety of techniques—some formal, some informal—which have been developed to deal with it. It also reinforces the maxim that explicit organizational structure is, at best, a permissive factor in the policy

process; it is never more than a necessary condition for effective policy and, in the context of any particular configuration of personalities, issues, and power relationships, the accepted divisions of labor, expertise, and responsibility can become largely or even entirely irrelevant. Most important, it reveals that the central question to be addressed is not simply the proper number of units connected by the appropriate linkages, but a subtler matter of the most productive balance between fixed *structures* designed to deal with foreseeable issues and flexible *processes* designed to create and adapt mechanisms as issues arise. In short, growing interdependence among nations implies that the designer of foreign policy machinery should devote at least as much attention to process as to structure.

The cases are also eloquent witness to the unavoidable conflict between perennial and necessarily coexistent objectives. Both historical analysis and future planning must recognize that the appropriate standard of judgment is not the degree of fulfillment of one or two national aims, but the degree of optimization among a substantial number, none of which can ever be completely ignored or sacrificed. If one believes in maximizing the rational elements in decision-making, it can be argued that the principal test of organization is whether it succeeds in making such tradeoffs explicit and inescapable by the decision-makers. In any event, it is critical to sensible policy that national purpose be conceived as a plural construct, made up of matched pairs of opposing concerns in which content and balance change constantly with events, beliefs, and dominant personalities. Thus, we must expect constant tension between parochial objectives and those based on concern with the system as a whole, between those which promise short-term advantage and those which look to the longer-term, between those perceived as "for-

eign" and those perceived as "domestic," between those which maximize consistency and those which emphasize the capacity to capitalize on special circumstances, between those which put a premium on prompt and decisive action and those which seek to prolong the period in which major options are kept open, and between the need for tight security with respect to a change in policy and the desirability that the change be as widely understood and supported as possible. These tensions reflect the nature of man, not any imperfection in policy or policy-making; the objective is to recognize, address, and balance them, not to eliminate them. The summary lesson of the cases may be that we have established few structures charged with the former and too many which reflect a belief in the necessity of the latter.

II. ISSUES, ACTORS, AND BUREAUCRATIC PRIMACY

The cases provide an implicit typology of the issues and the actors most active in these matters. They also point up a problem of particular intensity in this area of policy: the difficulty of institutionalizing an Executive Branch *primus inter pares* with overall lead responsibility and authority. An understanding of these factors is crucial intellectual infrastructure for constructive thought about organizational change. The issues are best categorized by the level of decision they are generally perceived to require (*not*, it should be noted, by their "political" or "economic" or "foreign" or "domestic" content). Broadly, they fall into the following groups:

a. Those which the President, either on his own motion or that of his subordinates, elects to monitor personally. These are usually not discrete decisions but a steady flow of events and choices in which the President is a fairly continuous participant.

b. Those which are perceived to require a single Presidential decision, or very intermittent President involvement, without extensive or continuous Presidential monitoring.

c. Those which require mediation (and perhaps *de facto* decision) by a person, agency, or group acting in the name of the President.

d. Those which are decided in an interagency context through formal or informal monitoring and decision machinery.

e. Those which never become visible outside the operating agency in which they arise and are explicitly or implicitly resolved in the operating process.

f. Those which never arise at all—initiatives unconceived or unimplemented, events unperceived or unreported, or policies unexamined.

In general, what might be termed the "issue profile" of what has been traditionally regarded as foreign economic policy differs somewhat from sister areas in that it presents relatively few issues which have been perceived to require direct Presidential decision or intervention (categories (a) and (b)); also relatively few that can be properly monitored and resolved at the agency or interagency level (categories (d) and (e)); a great many that require the attention of some central or lead person or entity acting in the name of the President (category (c)); and widespread suspicion that there are a great many sins of omission (category (f)). Put another way, foreign economic policy produces a continuous need for what Francis M. Bator has called a "holder of the ring," a central person or institution which manages the monitoring and deliberative processes, assures the timely provision of debating forums of appropriate breadth and level, and makes certain that the President's responsibility for the *optimization* of objectives is asserted, protected, and reflected in the implementation process, as well as in the decision.

The centrality of this function is further demonstrated by the number and diversity of institutions and individuals with a legitimate role in the making and execution of policy. Most serious issues tend to involve all or most of the following (all definitions are the traditional ones):

a. Those concerned primarily with foreign matters. These are divided by unmistakable and often soundproof barriers between those interested in political (sometimes referred to as "general") matters and those interested in economic (often called "specialized") concerns.

b. Those primarily concerned with domestic matters. Here again there is a division between "political" and "economic" foci, but not usually so sharp a distinction.

c. Those primarily concerned with the military aspects of foreign policy.

d. Those responsible for the overhead resource management processes of government—particularly the budget process—and for macro-economic strategy and planning.

e. Those responsible for a particular sequence of events with broad concerns and implications (e.g., a world-wide tariff negotiation).

f. Those concerned with relations with a particular segment of the world (e.g., the less-developed countries).

g. Those responsible for knitting all of the strands—foreign and domestic, economic and political, functional and geographic—into a sin-

gle body of national policy of reasonable internal consistency and maximally effective procedures to limit the damage when one or another specialized agency gets out of hand.

In many ways the central conundrum of structural architecture in these matters is how to provide for the "ring-holding" function (type (g)) while maintaining the strength, operational authority, and lively expertise of the other actors. The conventional wisdom, which underlies the current structure of statutes and Executive Orders which shape the Executive Branch, is that this is best accomplished by concentrating this central management and coordinating function—along with a number of operating functions—in the Department of State. Without exception, the cases suggest that this is, at best, extremely difficult and perhaps impossible in most major instances, particularly where the Secretary of State is not personally involved. The validity and possible implications of this lesson will be discussed in later sections, but it is relevant here to identify the basic factors which heighten the difficulty of establishing State or any other Department as an overall "lead agency" in this field.

First, and most important, foreign economic policy decisions regularly require tradeoffs between what Morton Halperin has called the "bureaucratic essence" of major Departments. That is, particularly for a domestically-oriented agency with a heavy and continuing involvement with its domestic constituency and no present or traditional responsibility for the totality of foreign policy, the issues raised tend to be of a character which no one, short of the Secretary, can compromise, and the bureaucratic pressures on him are very great to concede only upon the clear orders of a clear superior. Relatively rarely, in the agencies outside the State Department, does a proposed compromise represent a tradeoff of two or more conflicting objectives *both or all of which* are perceived as important to the mission of the agency. Since nothing of value (thus narrowly defined) is to be gained by concession, it is not a real tradeoff to the domestically-oriented agency, it is simply a loss. It is an axiom of bureaucracy that nobody suffers an outright loss if the issue can still be escalated. Similarly, nobody argues with the right of the President or his personal representative to impose such a loss, but many reject the notion that any statutorily coequal department head should be empowered to overrule one of his colleagues.

Moreover, there is an apparently ineradicable perception—for which there is some recurring evidence—that every Department, including State, is representative of a specialized constituency rather than a holistic concept of American interests. In

the Executive Branch (and in much of the Congress and probably the electorate), State is, rightly or wrongly, regarded as the representative of the interests of foreign countries, of placidity in international affairs without regard to the cost in commercial or military advantage, and, sometimes, of interests reflecting concern for the President's personal standing as statesman rather than any broader conception of foreign policy. The Department also evokes in many minds an impression of inertness, a sense that it will never produce bold initiatives or major innovations in existing arrangements. (The 1970 Canadian oil case is the exception that proves the rule. As one of the advisers to this study pointed out, one of the strengths of the State/White House position in that case was the reaction of bureaucracy when the State Department became an advocate for a sweeping punitive action against the exports of a friendly, neighboring power. American surprise at the strong Canadian reaction may have been largely explained by the common faith that State would never take such a venturesome position unless it were reasonably certain that foreign reaction would be mild.) This stereotypical inertia has also, it seems fair to say, characterized the dominant view of the Department in the minds of the last three Presidents.

The evidence also seems compelling, as presented in virtually every case study, that the government-wide problem of non-communication—which is so severe that it might be termed cultural division—between "political" and "economic" specialists is even more serious in State than elsewhere, and that the professional caste to which the economist is relegated in that Department is generally and more systematically lower. Thus, State is almost never as deeply manned to analyze and debate any economic question as Defense, Treasury, or the major domestically-oriented Departments, and the State economists seem to encounter more difficulty in getting to and influencing top management. This problem, which is largely reflective of the traditions and incentive structure of the Foreign Service (about which more below), is highly debilitating for any participant and threatens to be fatal to a candidacy for "lead agency."

Whatever the weaknesses in State, however, the cases suggest that they are more than matched by those of the other Departments (with the possible exception of Treasury in limited areas). The cases dealing with textiles and soybeans amply demonstrate the damage that can result when a lead role is played by an agency with no broad perspective on foreign affairs. The decision to favor a man-made reserve asset (Special Drawing Rights), although spared by effective White House staff work, would almost certainly not have been made, at least in that

year, if Treasury had been permitted a free "lead hand" in dealing with monetary and balance of payments policy. Responsiveness to a specialized constituency, narrowness of professional experience and expertise, relative insensitivity to systemic foreign policy objectives, and chronic inability to translate technical esoterica into terms comprehensible to the lay decision-maker are, by and large, even more debilitating to the leadership capacity of the other Departments than the ills which afflict State.

All of the factors discussed in this section combine to pose the dilemma alluded to above. Foreign economic policy, however defined, produces a continuous need for a central coordinator who exerts the managerial role of the Presidency in deliberations and decisions on the great majority of issues and performs the staff work necessary for the President to make efficient use of his time and attention; the theoretical candidate for this function, the Department of State, has great and perhaps insoluble difficulties playing this role; yet, the other Departments are even less likely to be satisfactory leaders in most instances. How to get this critical role performed is the riddle to which most of what follows is addressed.

III. PRINCIPAL ORGANIZATIONAL CONCEPTS

The cases are not simply a chronicle of separate substantive decisions. They also provide data on the nature, diversity, and effectiveness of the patterns of organization utilized in this field during the past decade. As such, they lay bare a considerable body of experience with a broad range of structures. For the purposes of this chapter, it is sufficient simply to list the poles of each spectrum of organizational alternatives in which there has been experimentation:

- a. Committees of fixed membership and general responsibilities versus informally-established groups centered on specific issues or areas of policy.
- b. Basic responsibility in a lead agency advised by its colleagues versus true collective responsibility, usually in the context of a forum or enterprise chaired by a Presidential surrogate who is not connected with a line Department.
- c. Relative centralization of policy formulation and major operational decision-making versus relative decentralization to the lower bureaucracy and the field.
- d. Achievement of cross-cutting objectives (e.g., restraints on balance of payments effects) through intruding them into individual operating (e.g., aid project) decisions versus applying them

through the budget process and other government-wide control mechanisms.

e. Explicit, designated, separable facilities and processes for policy and contingency planning versus ones which are implied and/or inseparable from the process of day-to-day operations.

f. A single hierarchy of forums and individuals for treatment of both the "political" and the "economic" aspects of foreign policy versus separate hierarchies.

g. Arrangements for consultation with Congress, interest groups, and opinion-leaders versus closed deliberations limited to the Executive Branch.

h. The public establishment of a chosen individual as "chief spokesman" versus a team image in which all Cabinet members are viewed as equal under the President.

i. Limitation of White House personnel to a small, largely senior-level group playing a staff role for the President versus *de facto* transfer of substantial operating control from the Cabinet agencies to a large, somewhat institutionalized White House.

Obviously, this is not a complete nor even an entirely coordinate list. The number of marginally different organizational arrangements which has been used is probably nearly equal to the number of policy areas and issues which have arisen. Moreover, because these are diverse perspectives on organizational choice which can all be applied to a given issue at the same time, the range of possible permutations and combinations is very large. Nevertheless, they may provide useful aids to thought, if only in understanding the process by which the recommendations were formulated.

IV. CRITERIA FOR JUDGMENT

Sensible assessment of the recommendations also requires a clear statement of the criteria applied in reaching them and the context in which they are presented. The latter is dominated by a humility born of acute awareness that among mankind's happiest perversities is the propensity to achieve satisfactory results despite seemingly impossible organization. As noted earlier, rational paper organization is never a sufficient condition for sound policy and often appears not even to have been a necessary condition. Accordingly, experience indicates that reorganization is never a complete cure for deep-set substantive, institutional, or political pathologies. At best, rational organization is a ground of being which makes it more difficult for government to ignore its own capacity for rounded thought and coordinated action.

Recent history underscores the necessity of further noting that organizational arrangements must constantly be altered in the light of the personalities which populate them, but they cannot be designed in the abstract to fit a pattern of personality extremes. Put another way, one can adjust a given pattern to reflect the personal strengths and weaknesses of Cabinet Secretaries, but one cannot assume an improbable balance in those characteristics in designing the basic structure. Thus, it is not a valid criticism that a structure must be adjusted in the course of experience; it is a valid criticism that a structure so contemplates an improbable personality pattern that it cannot be adjusted to the more usual pattern without total renovation.

Accordingly, the overall objective of organizational arrangements, in our judgement, is to maximize the probability that the proposed pattern, as continually adjusted, will knit most plausible combinations of individual and institutional personalities into a structure which is:

- a. Productive of and attentive to all relevant factual data and analysis.
- b. Effective in encouraging both consistency and innovation in policy formulation and execution.
- c. Efficient in dividing labor and responsibility, and in establishing clear lines of authority.
- d. Discerning in the early identification of issues and opportunities.
- e. Flexible in adapting to new configurations of problems and opportunities.
- f. Balanced in the weight it assigns to the need for career expertise and professional judgment as against the need for responsiveness to duly chosen and accountable political authorities.
- g. Capable of fitting both deliberation and action to the demanding and often externally-determined rhythms of the formulation and implementation processes.
- h. Systematically productive of decisions and operational achievements which fulfill the expectations created in the minds of the decision-makers by the informational and analytic products of the structure, except to the degree that unknowable factors intervene.

As previously noted, most of the key terms in this list are necessarily subjective, and the entire process is referenced to a large number of partially-conflicting objectives among which priorities are constantly changing—often in the same mind on the same day. In the end, therefore, optimization will remain in the eye of the beholder. The conclusions and recommendations which follow are made in this spirit and burdened by no illusion of infallibility.

V. CONCLUSIONS AND RECOMMENDATIONS

A. Central Management and Coordination

The case studies, individually and collectively, suggest the following conclusions:

1. Interdependence between nations and between economic sectors has evolved to the point where it is no longer possible to conceive of a major "domestic economic policy" decision which does not have major "foreign policy" effects. The converse is still less axiomatic than in European nations, but increasingly true. New organizational arrangements must be designed and/or adapted to insure a rich, constant flow of communication between officials responsible for these traditionally separate realms, and to provide for maximum protection against deliberation and decision-making in which either side is effectively insulated from the other.

2. Similarly, it is likely to be at best ineffectual and at worst dangerous to provide for separate organizational channels for the "economic" aspects of "foreign" policy as against the "political." This separation not only encourages substantial distortions in the decision-makers' perception of problems, but is also inconsistent with the observed tendency of Presidents to look to a single focal point for advice on and coordination of what they perceive as "mainline" foreign concerns.

3. The design of arrangements for central management and coordination should be less addressed to specific, foreseeable issues and more to the capacity to generate new and/or adapted structures as the need arises. Such concerns as energy policy, balance of payments concerns, and questions of global economic balance cut across all traditional and conceivable organizational lines. The premium in the future is likely to be less on narrow expertise in yesterday's disciplines and more on the capacity to gather intellectual and operating resources in new conglomerates suited to more cross-cutting concerns. This will add even greater importance to a central office which manages the process of bureaucratic debate to assure access to all concerned, fosters innovative thinking, and assures the comprehensiveness and professional quality of the staff work provided to the President.

4. Coordinating committees of fixed membership and broad responsibility have legitimate uses, particularly at the staff level, in dealing with myriad items where no question of fundamental policy is involved. However, they are rarely

sources of innovative thought and are of very limited value in the central management of tough choices. This is primarily because:

a. When chaired by a "lead agency" they tend to be dominated by that agency and to be so regarded by the bureaucracy.

b. Members other than the chairing agency will, therefore, seek to guide debate into forums in which they have leading roles, or to short-circuit the entire procedure by a direct appeal to the President.

c. Moreover, fixed-membership committees designed to deal with a broad range of matters will inevitably be quite large and will contain members who are not central, or perhaps even relevant, to a given issue. The nature of intramural Cabinet politics almost insures that serious business will not be transacted in so large a group and/or in the presence of so many non-combatants.

d. These problems can be somewhat reduced, but usually not satisfactorily resolved, by providing for membership and/or chairmanship of such committees by the President or his staff representative. Although the negative effects of the lead agency approach may be lessened, others arise. A large Cabinet-level committee chaired by the President or his Assistant for National Security Affairs, for example, presents almost insuperable scheduling problems, as well as the other disadvantages of a large fixed-membership committee. Yet, the concepts of status which are endemic in bureaucracy—and to some degree necessary to its functioning—will not often permit an effective chairman of lower rank. In particular, it should be noted that no single-purpose Presidential appointee (e.g., the Special Trade Representative) is likely to have the standing to carry this role, or any role as Presidential surrogate, in the context of Cabinet controversy. Thus, the weaknesses of the fixed-committee concept (as most recently exemplified in CIEP, whose difficulties were compounded by its separation from "political" matters and the hierarchy which dealt with them) are not likely to be satisfactorily offset by even a strong White House role.

5. Neither, in most circumstances, is the problem of central management effectively addressed by combining the position of Assistant to the President for National Security Affairs with that of Secretary of State. Without arguing this sensitive point at length, suffice it to say that the two positions represent two separate and critically important functions which cannot be merged without some sacrifice, and should not be merged except in the rare case in which the re-

spective styles of the President and one of the appointees cannot tolerate a third presence. The Secretary of State must devote substantial amounts of time to being the chief executive of a sprawling and almost incredibly complex foreign affairs operation. The President, on the other hand, needs a senior staff chief for foreign problems who "lives" with him day in and day out, attends to the central coordinating role (which, for reasons already adduced, cannot normally be performed from the State Department), deals with his "domestic" counterparts in the White House, assures timely, impartial, and complete Presidential staff work, and serves as a constant conduit of the President's views, concerns, and directives to all of the relevant agencies, particularly State, Defense, Treasury, Agriculture, Commerce and the CIA. When the two roles are combined, one or the other function necessarily suffers.

6. As argued in Section II of this chapter, the reasons which make the State Department unsuited to the central manager's role are doubly reinforced in the cases of the other specialized Departments and agencies. Indeed, one important function of the coordinator's role is to activate damage-limiting mechanisms to correct the inevitably harmful imbalances which result when a Department of limited foreign affairs perspective gets the bit in its teeth. For example, in no event—short of direct Presidential instruction after the fullest discussion the President will permit—should the central manager permit responsibility for international negotiation to pass from the State Department to a domestically-oriented agency. Maintaining this role in the hands of experienced professionals with a sense of the full range of foreign policy concerns and objectives is a principal damage-limiting device.

7. It is critical to the performance of all of the central management and coordinating functions that the officer responsible be both a respected professional economist capable of give-and-take with the most accomplished specialists inside and outside government, and one of those rare individuals skilled in rendering technical debate and options into the lay language to which Cabinet officers and Presidents are, quite reasonably, characteristically limited.

8. It follows that the optimal organizational arrangement for the central management and coordination function be of the following nature.

a. It should be the responsibility of a single senior appointee of the President, known to him personally, and known to be trusted by him. This appointee should have regular and reliable access to the Oval Office. He (or she) should operate with a very small staff of proba-

bly no more than two professionals, lest institutionalization set in and the office begin to lose its effectiveness as a coordinator of bureaucracies with an intense aversion to being coordinated by other bureaucracies.

b. He should be a professional economist with a title equivalent to principal Deputy to the Assistant to the President for National Security Affairs, assuming that this office continues to be the focal point for general monitoring of foreign affairs. In any event, he should not be separated from the general flow of issues and decisions of a "political" nature.

c. This holder of this office should be made a regular member (or the regular representative of the Assistant to the President, who might be named the formal member) of the "Troika" (the group traditionally in charge of fiscal policy, now comprised of the Secretary of the Treasury, the Director of the Office of Management and Budget, and the Chairman of the Council of Economic Advisers) and of the "Quadriad" (the four-member group charged with formulating monetary policy, now composed of the "Troika" members plus the Chairman of the Board of Governors of the Federal Reserve System).

d. He should be assigned the basic responsibilities outlined above, with particular emphasis upon assuring the timely formation, for each major issue and other opportunity, of informal groupings of appropriate officials from the relevant agencies, at the lowest effective level which can produce the necessary factual data and analysis, launch and document a thorough debate of merits, strategy, and tactics, and give special attention to innovative approaches. Equally important, he should direct the traffic in individuals, papers, and issues heading toward the President, and serve as the latter's chief translator of technical issues. He should also serve as an independent adviser, but he should not carry the same weight or presumptive authority accorded to a Cabinet official. He should not be of Cabinet rank or carry heavy operational or representational responsibilities. Neither should his appointment be interpreted as eliminating the need for staff coordinating committees on a whole range of topics.

These conclusions lead to the following *recommendations*:

1. *That every President be urged to establish a Deputy to his Assistant for National Security Affairs with professional economic credentials, personal access to the President, and central responsibility for the coordination and Presidential staff functions outlined above.*

2. *That the President abolish CIEP and reexamine the structure and functions of all current cabinet-level coordinating committees.*

3. *That the general mode of issue management become the generation of informal groups of officials in the agencies most directly relevant to each matter, that the groups ordinarily be composed of members at the level of Assistant Secretary or below, and that they be organized by the White House and shaped to the exigencies of each cluster of policy issues, rather than designed to cover the full range of economic concerns.*

4. *That the recommended new Deputy Assistant be made a direct or representational member of the fiscal policy "Troika" and the monetary policy "Quadriad."*

5. *That the President direct that in no case shall the function of international negotiation be taken out of the hands of the State Department (or the Special Trade Representative in the case of a general tariff negotiation) and given to an agency of essentially domestic constituency and orientation.*

B. Other Government-Wide Conclusions

Beyond the issue of central management of the process, the most striking lesson of the cases is the miniscule and relatively static number of individuals in policy-making or staff positions who feel competent and comfortable dealing with both "political" and "economic" issues. This is particularly true in the Department of State, for reasons discussed below, but it is a general truth applicable to all agencies. Particularly in the oil policy cases, where "the best" supply information and projections available in the government were totally and dramatically erroneous, almost up to the day of visible shortages, the absence of seasoned professionals able to combine technical expertise with subtle political judgment is quite evident. The special problem of the Foreign Service is discussed later but it is *recommended* that in all agencies with a role in these matters (including State) the following steps be taken:

1. *That an inventory of individuals with professional economic training and experience be established.*

2. *That at least one senior officer at each level of bureaucracy (the unit, office, or bureau director or his deputy) have—or be asked to acquire at government expense—basic academic training in micro- and macroeconomics. (Where appropriate, this should extend to more specialized courses in the economics of international trade or monetary affairs.)*

3. *That current arrangements for regular interchange of personnel with selected industries (e.g., the oil industry) be at least doubled.*

4. *That the Civil Service Commission develop a special sub-category of its Federal Executive Inventory to high-*

light experience in economic analysis and negotiation and that a special effort be mounted to assure maximum freedom of movement of such personnel among the agencies of the Federal system.

5. That staff complements be reviewed with an eye to increasing the resources devoted to politico/economic analysis, even at the cost of some generalists or more highly specialized personnel.

The other pervasive government-wide implication of the cases is the systematic failure of most government agencies to do effective forward planning, particularly planning which consciously strives for innovation. It is difficult to understand, for example, that at a time when a President's principal East-West policy goal was to find ways to demonstrate that the Vietnam war did not preclude movement toward limited detente with the Soviet Union, an East-West trade bill emerged only because of the prodding of the White House and the sustained interest of officials with neither planning responsibilities nor direct involvement in U.S.-Soviet affairs. (One of the key people was, at one time, on the Policy Planning staff at State, but his role seems to have been largely determined by his personal interests.) The shock of impending oil shortages—before the Arab embargo—was another classic example, as was the reaction to Japanese bitterness about the repeated surprises visited upon Japan by American policy. This sad record stimulates the following recommendation:

That the Office of Management and Budget undertake an immediate and detailed study of all policy planning staffs in the foreign affairs community, assessing their size, priorities, output, and impact on the decision-making process.

C. Problems in Major Agencies

DEPARTMENT OF STATE

The case studies drive home a fact that has been evident to many observers for a long time: the State Department is dangerously under-equipped to play even a supporting role with respect to most issues which require professional training in economics. Some of this reflects questionable organization and the leadership's preoccupation with "political" issues, but the most important factors, in our judgment, lie in the traditions and incentives of the Foreign Service. These problems are so entrenched and have so long resisted reform that several knowledgeable observers believe that the only real alternative may be the European model, in which responsibility for foreign economic matters is usually vested in the Finance Ministry rather than the Foreign Office. Indeed, it is no accident that case after case shows that in the present-day American system, a vacuum of leadership in foreign economic policy is much more likely to be filled by Treasury

than by State. For the reasons presented in Section II and elsewhere, however, we continue to believe that the balance of wisdom lies in yet another attempt to break the cultural prejudices which now condemn Officers with economic training and preferences to inferior status in the Service and a distinctly more limited career horizon than those who concentrate on the traditional "political" concerns. Thus, the following recommendations:

1. That the present position of Assistant Secretary of State for Economic Affairs be abolished and the incumbent and his successors be appointed Deputy Under Secretary for Economic Affairs. This would place the Under Secretary in direct operation of the Bureau of Economic Affairs, ending the long-standing tension over "turf" with the Assistant Secretary. At the same time it would give the latter added status for dealing with the geographic bureaus, which continue to be the real power centers in the Department.

2. That the Department convert at least half of all existing positions which require economic training to civilian (i.e., non-Foreign Service) status.

3. That the Department offer a one-year leave with salary and tuition to any Foreign Service Officer between grades 7 and 3 who will agree to devote that year to concentrated academic training in economics.

4. That the Foreign Service adopt special procedures providing for lateral entry for qualified people with economic training, and "in and out" traffic by those who wish to divide their careers between the Service and the private sector or civilian government service.

5. That the Department be directed by the President to so structure its nominations that the small number of Officers with specialties in economics who have been appointed to Ambassadorial posts be multiplied by no less than four in the next five years.

THE AGENCY FOR INTERNATIONAL DEVELOPMENT

The major lesson for the India case, and of the recent general history of AID, is that, particularly in a period of declining aid levels, no organization which deals with major decisions in a predominantly bilateral context can achieve real insulation of the instruments designed to achieve long-term policy ends from the influence of short-term exigencies. The "independence" of AID—which underlies its separate status within the State Department and its separate appropriation through the Executive Office of the President—is increasingly a myth with respect to issues of major controversy. This evolution argues for abolition of the Agency and distribution of its functions among various bureaus of the State Department and perhaps the Export-Import Bank.

However, three factors persuade us not to make this recommendation. First, every reorganization

has its costs in dollars, delay, and disruption, and there is nothing in the history of State as an *operating* entity that inspires confidence that these costs would be offset by increases in consistency of policy or efficiency of operation. Second, there are recurring signs that the Congress may finally undertake a full review of this battle-scarred area and design a new entity consistent with the conceptual shift to dependence on multilateral instruments for development assistance. If so, the AID structure will probably provide a better base for the new construct, and provide for a less traumatic transition. Finally, there are many issues of the sub-Cabinet variety (e.g., food aid priorities) in which the independence of AID appears to be real and of continuing value in a landscape otherwise largely barren of an integrated view of the economies of developing countries.

The case of the change in additionality policy, on the other hand, drives home a simple but critical lesson: the politics of personal visits are often most destructive of the linkage between the substantive expertise of the bureaucracy and the immediate problems and priorities of the political appointee. Right or wrong, this decision illustrates the need for clear, formal arrangements in preparation for Presidential meetings and the travels of Presidential emissaries. It is therefore *recommended*:

That the President establish by directive a formal process for preparation of briefing materials, decisions on agenda and objectives, and full after-the-fact debriefing in connection with each meeting of head of state with the President or his personal representative.

D. Problems in Highly-Specialized Areas

INTERNATIONAL MONETARY AFFAIRS

As shown in the relevant case studies, international monetary affairs imposes a special set of demands and constraints on the policy process. Fundamentally, these reduce to unusually stringent requirements for technical expertise, a premium on decision security, and a particular necessity for a strategically-placed ability to translate events, data, and decision options from their technical expressions into the layman's language of the President and other decision-makers. The intensity of these special factors varies somewhat, according to the nature of the subject matter. Very different levels, for example, are experienced in connection with day-to-day management of balance of payments policy as against those in connection with decisions to devalue or to float the currency. Despite these differences in degree, however, several *conclusions* follow from recent experience:

1. It is probably pointless to assume, particularly in instances of crisis management and/or of

major policy decision, that the relevant *de facto* organization will consist of more than a small hand-picked group of individuals in which the Secretary of the Treasury and the Under Secretary for International Monetary Affairs will have the leading roles at the Departmental level. This probability becomes a virtual certainty when the President wants staff work performed and operational preparations made for a step (e.g., devaluation) which he has publicly forsworn.

2. The presumptive weight of Treasury in these matters heightens the significance of technical competence at senior levels in the State Department and reasonable staff support for it. The need for balance between narrower financial concerns and the broad spectrum of foreign and domestic consequences is clearly no less pressing in this subject area than elsewhere. Yet, the relatively closed, high-level process which characterizes policy formulation here dictates that effective State participation will normally rest upon the personal commitment and activity of a strong, knowledgeable official of sufficient rank and standing to be a plausible (indeed, ideally an inescapable) member of the "charmed circle." In practical terms this almost certainly means the Under Secretary for Economic Affairs, supported by his recommended Deputy and a reasonable cadre of professionally-trained staff people who specialize in the monetary area.

3. However, even an active, technically formidable State Department cannot generally perform the translation function for the President with the effectiveness and impartiality required. Given recent trends toward even greater Treasury hegemony in monetary matters, it also seems probable that it will be at least some time before State can serve as an effective counterweight to this rather specialized perspective. These factors throw into stark relief the critical role of the recommended Deputy to the President's Assistant for National Security Affairs. Put simply, the lesson of experience is that the person in this position must have the technical expertise to be professionally acceptable for the central management and coordination role in the monetary field and, above all, that he or she must be the President's personal translator in these matters. Absent these skills and functions, there is a high risk of single-agency dominance. Never a healthy phenomenon, this dominance would be particularly worrisome in an area in which the significance of events is often grasped by only a small cognoscenti which, in the normal case, cannot be depended upon to include the President.

These judgments stimulate the following *recommendations*:

1. *That the Secretary of State be urged to insist that the Under Secretary for Economic Affairs have or acquire the expertise necessary to deal in a professional manner with his Treasury counterpart on international monetary matters, and that the Under Secretary be provided with a small, specialized staff for independent analysis and support in this area.*

2. *That the President, in choosing the already recommended Deputy Assistant for National Security Affairs, make present or quickly acquirable expertise in this area a necessary condition of appointment.*

LARGE-SCALE TARIFF NEGOTIATIONS

The longitudinal study of the Office of the (President's) Special Trade Representative (STR) suggests three major conclusions:

1. There is great value to establishing such an Office when a multi-level, global enterprise is in the offing. Invariably such negotiations have the effect of multiplying manifold the number of highly specific and specialized interagency issues which arise in the trade field. The major favorable effect of STR has been to introduce a two-tier system for central management and coordination which avoids overload at the White House by screening out the many issues which can—at least where the debate is conditioned by the need for a clear position in an on-going negotiation in which STR is the negotiator—be settled through the activities of a specialized Presidential surrogate such as the Special Representative.

2. However, this second tier is unlikely to be able to replace the first with respect to Cabinet-level controversies. The specialized surrogate, regardless of his personal or professional quality and almost regardless of his personal standing with the President, finds himself working through the regular White House staff, rather than performing staff and coordination functions directly for the President. This is inherent in his specialization, just as the need for the regular staff person is inherent in his closer and more constant working relationship with the President, his broader perspective, and his involvement in the wider range of issues unrelated to trade which affect every one of the participants in the debate except the Special Representative. Thus, the proper test of the need for STR is the need for a two-tiered central coordinating system, not the possibility of replacing one with the other.

3. There is some evidence that the usefulness of the Office declines with the passage of time after a negotiation has been completed and there is little real prospect of another within a meaningful time horizon (say five years). It is difficult to recruit leadership of the personal and professional standing to play this demanding role vis-à-

vis a half dozen strong Cabinet Departments, and the discipline required for effective coordination seems to relax noticeably in the absence of the relentless pressure of negotiations. Although in theory the Office could continue as a useful source of analysis and innovation with respect to the advantages and optimal direction of sweeping trade initiatives—an area which usually receives too little attention in the traditional bureaucracy—it seems to lose capacity for effectiveness in this area as its operational efforts wane.

These conclusions are the basis for the following recommendations:

1. *That an Office of the President's Special Trade Representative be established to conduct cross-cutting tariff negotiations, using the model enacted in the Trade Expansion Act of 1962.*

2. *That the statutory mandate of this Office expire two years after the completion of the negotiation, to be renewed only upon detailed proposal and justification by the President.*

VI. EPILOGUE

As might be expected, it is our view that the changes recommended in this chapter, taken together, constitute a reasonably comprehensive and internally consistent approach to the problems pointed up in the case studies, as determined and evaluated by the criteria set forth in Section IV. However, the experienced reader will note, perhaps with dismay and certainly with misgivings, that the central theme flows from a most delicate and necessarily subjective base—a theory of the proper role and organization of the White House.

There are, of course, excellent reasons why the question of White House organization should be addressed in the most flexible spirit possible. Presidents differ greatly in interests, style, level and concentration of expertise, and in their perceptions of the role appropriate to them and to their personal staffs in the formulation and execution of policy. It is to be expected that the nature and the configuration of personal and power relationships will vary greatly from one administration to another. It is also arguable that the special characteristics required of the tiny staff recommended herein, central among which are the indefinable qualities necessary to become a trusted adviser to a future President, are so difficult to find in the proper combination that it is perilous, and perhaps even foolish, to rest so much upon a successful search. These are, in our opinion, deadly serious concerns which deserve great weight in any deliberative process which follows this Report.

In our considered judgment, however, the

proper implication of these concerns is that no circumstances can ever justify—or make effective—a statutory mandate upon a President to organize the White House in any particular matter. Nothing could be more self-defeating. The entire thesis presented herein depends upon the free (and visibly free) choice of the Chief Executive to select and rely upon a central manager and coordinator of his choice, working within the framework he has set up to manage his general role in foreign and domestic affairs. Any attempt to force or restrict his choice would almost certainly empty the new office of meaning and bureaucratic effectiveness. The task is a more subtle one; it is to *persuade* a President that his interests and those of the nation are best served by equipping the White House to play an effective role in those things which, experience indicates, only the White House can manage without serious risk of an unbalanced deliberative process which produces unbalanced policy.

The proposition that such an effort at persuasion is worth its price in possible misunderstandings is buttressed by the weight of experience in the past two decades, and particularly that of the last five years. No useful purpose is served by obscuring the fact that Presidents have been uniformly dissatisfied with the structure and responsiveness of the foreign affairs community, nor that they have, each according to his own preference and style, altered it substantially from the design described in statute and textbooks. Neither is it useful to evade the fact that there has been a modicum of consistency in the direction of these changes and that they have generally strengthened the White House, the Treasury Department, and other domestically-oriented Departments at the expense of the Department of State. If one accepts the central substantive thesis advanced here—that growing interdependence produces a growing need for a broad perspective on foreign matters—the devaluation of the Department created to pro-

vide such breadth is of grave concern.

We are left, then, with what seems on the surface a paradox. Reduced to essentials, the message to the President is that the most promising way to restore the relevance and effectiveness of the State Department is to stop expecting it to perform a process management role inconsistent with its nature and the nature of bureaucracy, and to assign that role to a carefully-chosen senior officer in the White House who has the location in the decision process and the relation to the President to assure that State—and everyone else—gets a fair hearing. Combined with a determined effort to equip State to deal as a professional equal in matters requiring specialized expertise in economics, this is the best possible insurance that the Department will play the role consistent with the requirements of the times.

That the message is complicated and requires explanation would not seem reason for apology. Foreign affairs in a world of increasingly interdependent nation-states is as complex a web of issues as has ever been addressed by man. A great deal hangs upon the capacity of Americans to absorb such complexities and evolve the processes to deal with them. The first step is the precise implication of this challenge: the recognition that the key to effective organization is to address the process by which it can be made to evolve rather than the particular blueprint of structure and personalities which that process produces. The most critical premise of this chapter is that there must be a central keeper of the process and that experience militates against making the keeper a major independent decision-maker or locating him in an operating Department. It is this question, abstract and intellectually demanding as it may seem, which must be addressed if we are to contemplate serious organizational change. If this Report can stimulate informed debate of this issue, it will have more than served its purpose.

Commodity Export Controls: The Soybean Case, 1973

Edward F. Graziano
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I. THE DECISION AND ITS BACKGROUND

The soybean export control decision did not involve a separate and distinct decision-making process but rather a decision phase, which was ancillary to the Freeze II decision, and two overlapping implementation phases. Export controls were to be the natural concomitant to Freeze II, which involved a package of decisions. Unfortunately, the analysis of Freeze II is beyond the scope of this case study but reference inevitably must be made to President Nixon's June 13, 1973, Freeze II speech which foreshadowed the actual export control program and which forewarned both the national and the international agricultural communities that export controls were certain.

The soybean export control decision was essentially a domestic political decision which involved domestic economic considerations. Foreign economic policy considerations were given short shrift by the key actors who had neither the time nor the inclination to involve themselves in international consultations or negotiations.

The time frame for the decision was only seven weeks. In early May 1973 "staffing out" began and by July 5 the decision had been fully implemented.

This decision involved *ad hoc* organizational units which conferred in secrecy. The Export Administration Act of 1969 forced the Administration to involve the Commerce and Agriculture Departments at some point in the implementation planning phase. Otherwise, they probably would have been excluded.

The State Department had no input into the decision process. It was effectively precluded from participation because commodity export controls were perceived as a domestic problem that did not require State Department involvement. This economic jingoism caused severe international reaction which damaged the United States' role as a credible supplier of agricultural commodities in the

international market. This could have been avoided had an appropriate international planning-consultation mechanism been established.

THE WORLD SUPPLY-DEMAND SITUATION AND THE U.S. ROLE

A tight world supply situation and record-shattering demand for high protein feedstuffs shot soybean prices and use to record levels in June 1973 of the soybean marketing year which ended August 31, 1973.

According to a Chicago Board of Trade report, the soybean price phenomenon actually began in the late 1960s, when a wave of prosperity swept Japan and Western Europe. Continual upgrading of diets, including meat, poultry, and eggs, led to an increase in livestock production. This, in turn, necessitated increased imports of high protein feed, mainly soybean meal from the United States, fishmeal from Peru, peanut meal from India and Africa, and sunflower meal from Russia.

U.S. soybean exports rose from 287 million bushels in 1968-69 to 417 million bushels in 1971-72. Simultaneously, 1969 carryover stocks of 327 million bushels were reduced to 230 million bushels in 1970 and 99 million bushels by 1971 because of sharp increases in domestic consumption and exports and the Commodity Credit Corporation's reduction of holdings from 337 million in 1969 to 150 million in 1972 and to 2 million bushels in 1973.

Increases in U.S. soybean production slowed in 1968-69 and 1969-70 and decreased in 1970-71. Efforts to boost production in 1971-72 proved unsuccessful when farmers failed to plant the anticipated number of acres. Although production increased by 49 million bushels in 1972-73, reserves dropped to 60 million bushels.

At the same time, Peru, the world's largest producer and exporter of fishmeal, was sharply expanding its anchovy catch. In fact, expansion was so rapid that some marine biologists began to warn of the dangers of a possible "overcatch," which might

eventually destroy or sharply reduce the future source of supply. Fishmeal is second to soybeans as the world's most important source of protein meal.

The Chicago Board of Trade report states that "world demand for meal and the world export supply of meal were by 1972 clearly on a collision course." USDA's Economic Research Service (ERS) said it was apparent early in the season that the entire U.S. soybean crop would be used.

The 1973 spectacular rise in soybean prices was the product of worldwide shortages of protein, caused by major production declines, coupled with a sharp rise in demand. Exports of Peruvian fishmeal and Indian and Senegalese peanut meal declined by the equivalent of 145 million bushels of soybeans, only 25 million bushels of which were offset by an increase in Brazilian soybean export availabilities. World import demand increased by the equivalent of 105 million bushels, made up of 40 million bushels in the Soviet Union and 65 million bushels among traditional importers.

As this massive deficit, equivalent to 225 million bushels, became apparent foreign buyers dependent on protein meal imports looked to the United States to make up the difference. U.S. soybeans were able to meet almost half the imbalance existing in the rest of the world. The remaining gap was the reason for high soybean prices and aggressive foreign bidding.

Other factors influencing the rise in soybean prices were: unfavorable weather, which delayed the U.S. 1972 harvest and 1973 spring plantings; devaluation of the dollar; and accelerating inflation. Allegations were also made that speculation caused higher soybean prices, but the Commodity Exchange Authority—responsible for regulating future markets—stated its belief that speculation in the soybean and grain markets was not a major factor in the rapid price increase.

THE DOMESTIC SCENE

An environment that could be described as panic-stricken had been created by the reactions of the Congress (in particular, a large Democratic caucus); a large number of big city constituents; the press (e.g., the *New York Times*, which had strongly endorsed an export control policy); and the President, who had understood at least the political implications of, if not the economic reasons for, Freeze II and the effect on the American people.

The surge in inflation that occurred in the first quarter of 1973 persisted during the second quarter. Prices at consumer and wholesale levels continued to increase at disturbingly high rates. A disproportionate share of the overall increase in prices was accounted for by farm and food products during the first half of 1973.

The growing pervasiveness of price increases in-

dicated that the forces of inflation had not subsided and that prospects for reduced inflation had deteriorated.

The price trends that developed and a change in the price outlook were accompanied by increased concern for the course of inflation on the part of the Administration and the Congress. Changes in stabilization controls policy were a response to these developments.

During the second quarter of 1973, the American consumer witnessed the end of Phase III, beginning of Freeze II, and early planning of Phase IV.

THE DECISION PHASE: MAY 1973 TO JUNE 13, 1973

In early May 1973, discussion was begun by the cabinet-level, *ad hoc*, Economic Policy Council (EPC) composed of the following persons in order of importance:

- George Shultz, EPC chairman, Secretary of the Treasury, Chairman of the White House-level Cost of Living Council (CLC), Chairman of the Council of International Economic Policy (CIEP), Chairman of the Council on Economic Policy (CEP), and Assistant to the President for Economic Policy (and often referred to as the Administration's "Economic Czar");
- John Dunlop, CLC Executive Director;
- Herbert Stein, Chairman of the Council of Economic Advisers (CEA)
- Peter Flanigan, CIEP Executive Director; and
- Kenneth Dam, CEP Executive Director and Assistant to Shultz.

Dunlop provided initial impetus for discussion of a retail food price freeze, and the ramifications thereof, which included export controls. After the initial discussion, Shultz asked Stein to commence research on the issues involved in export controls. Stein commissioned his CEA Special Assistant, Gary Seevers, to form a group (hereinafter referred to as the Seevers' Group) to research the issues. The Seevers' Group was composed of the following persons:

- Gary Seevers, CEA Special Assistant and Chairman;
- Richard Bell, USDA Deputy Assistant Secretary for International Affairs and Commodity Programs;
- David Gunning, CIEP Assistant to Flanigan;
- Michael Butler, Department of Commerce, Office of the General Counsel; and
- Charles Cooper, Assistant to Henry Kissinger on the National Security Council (NSC).

Seevers' Group, after studying economic data provided directly by the USDA's Economic Re-

search Service (ERS) and the legal opinion of Commerce's Office of the General Counsel (DOC/GC), concluded that the inflationary problem was a food problem, and that most of the food price inflation revolved around animal products, meats, eggs and poultry. Food grain prices were higher than consistent with food prices and would go higher unless something were done to stop them. Maintaining adequate domestic supplies became a top priority objective. Controlling supply, it was concluded, could control price.

However, Butler of DOC/GC found a legal impediment to controlling supply. The Export Administration Act of 1969 indicated Congressional intent that short supply controls should be imposed very sparingly, and only when absolutely necessary. The Act had been strictly construed. The legislation called for fulfillment of a three-fold test which necessitated proving with economic data (a) that the domestic economy needed protection from the excessive drain of a scarce material; and (b) that controls would reduce a serious inflationary impact which was caused by (c) abnormal foreign demand. In other words, the legislation had stated the economic criteria necessary for imposition of controls. Any other formulation of the problem would not fulfill the requirements of the legislation. Therefore, the criteria were assumed provable but needed to be corroborated by economic data.

Consequently, in early June the EPC was told by the SeEVERS' Group that the economic data to corroborate the legal criteria of the Act had to be collected. To obtain the required data, Shultz recommended an export monitoring system to President Nixon.

Congress had been clamoring for control of food prices. Dunlop was emphasizing the economic necessity, and White House political advisers (i.e. John Connally, Melvin Laird, Bryce Harlow and Virginia Knauer) were underscoring the political need for taking immediate action to illustrate to the American people that the President's ability to act decisively had not been disrupted or dissipated by Watergate. Unfortunately, the international considerations were never fully presented to the President or the EPC because the State Department was not represented in either the EPC or the SeEVERS' Group. The NSC's Charles Cooper was a new staff member, and had only been asked to act as a conduit of information between the SeEVERS' Group and Kissinger. Consequently, international economic policy played no role in the initial implementation of export controls. Later, the State Department was to help mitigate adverse foreign reaction to the absence of any international consultations or negotiations prior to the imposition of export controls.

President Nixon bowed to the domestic political

pressures for controls on food prices and laid the groundwork for its concomitant, export controls, in his June 13 speech.

President Nixon said:

"Effective immediately, I am ordering a freeze on prices. This freeze will hold prices at levels no higher than those charged during the first eight days of June. It will cover all prices paid by consumers. The only prices not covered will be those of unprocessed agricultural products at the farm levels, and rents . . .

"One of the major reasons for the rise in food prices at home is that there is now an unprecedented demand abroad for the products of America's farms. Over the long run, increased food exports will be a vital factor in raising farm income, in improving our balance of payments, and in supporting America's position of leadership in the world. In the short term, however, when we have shortages and sharply rising prices of food here at home, I have made this basic decision: in allocating the products of America's farms between markets abroad and those in the United States, we must put the American consumer first.

"Therefore, I have decided that a *new system for export controls on food products is needed—a system designed to hold the price of animal feed-stuffs and other grains in the American market to levels that will make it possible to produce meat and eggs and milk at prices you can afford.*

"I shall ask the Congress, on an urgent basis, to give me the new and more flexible authority needed to impose such a system. In exercising such authority, this will be my policy: we will keep the export commitments we have made as a nation. We shall also consult with other countries to seek their cooperation in resolving the worldwide problems of rising food prices. But we will not let foreign sales price meats and eggs off the American table." (Emphasis added)

This freeze was intended to quell the inflationary mood that seemed to have overtaken much of the country, as well as to demonstrate the Administration's determination to halt rapidly rising prices. President Nixon imposed his Freeze II policy at a time when consumer prices were rising at a seasonally adjusted annual rate of 7.4%; wholesale prices, at a rate of 23.4%. Food prices continued to be the primary force behind this rise, accounting for approximately 40% of the increase in both the Consumer and Wholesale Price Indices.

Faced with the prospect of having commodities flow into international markets at the expense of American consumers, on June 13, 1973 the Secretary of Commerce announced the institution of a reporting system for agricultural commodities, including soybeans. This reporting system required

all exporters to report, on a weekly basis, by country, all anticipated exports of soybeans and related products. June 13 also marked the beginning of the first phase in which implementation policy was thoroughly formulated.

THE IMPLEMENTATION PLANNING PHASE: JUNE 13 TO JUNE 27, 1973

The EPC did not directly recommend the imposition of export controls on June 13. Instead, Shultz presented a studied analysis of the economic ramifications to President Nixon who had decided to impose both price and export controls. At a post-speech press briefing on June 13, Shultz emphasized the need for export controls to avoid a two-tiered market (and a serious outflow of exports), saying:

"... in terms of new legislation needed in order to make this freeze and the following program, Phase IV, or whatever it will turn out to be called, work, *is the need for an ability to control exports and authority more flexible than that which is now in our hands.*" (Emphasis added)

Shultz then resigned as a matter of principle. His economic philosophy could not condone price or export controls. President Nixon implored him to continue in the public service. Shultz therefore reconsidered his resignation and continued in his role as a weakened "Economic Czar".

The EPC met immediately thereafter and this time Flanigan was requested by Shultz to put together an interagency task force on food export controls to further expand on the research and analysis initially conducted by the *ad hoc* Seever's Group, which by this time had disbanded. Thereafter, Flanigan commissioned his CIEP assistant, David Gunning, to form a group. Gunning called his first meeting of the Interagency Task Force on Food Export Controls (ITF/FEC) on June 16, 1973. Kenneth Dam always attended ITF/FEC meetings, both as an observer and overseer, and reported his observations to the EPC. The ITF/FEC was composed of exactly the same membership as the Seever's Group (i.e. Seever's, Bell, Gunning, Butler, and Cooper) plus Dawson Ahalt, Assistant to CLC's Dunlop and State's Julius Katz, Deputy Assistant Secretary for International Resources and Food Policy and/or State's Albert Mayo, Director of the Office of Food Policy and Programs of the Bureau of Economic and Business Affairs who would report to Katz in Katz's absence. This group formed itself into the following subcommittees:

(1) Subcommittee on Mechanisms for Export Controls, chaired by David Gunning, which formulated all of the possible export control systems and studied their pros and cons.

(2) Subcommittee on Legal and Constitutional Issues, chaired by Michael Butler, which studied the aforementioned legal impediments, and was asked to draft new legislation to present to the Congress, enabling the President to directly impose export controls if necessary.

(3) Subcommittee on International Consultations and Negotiations, chaired by Charles Cooper, which did nothing but listen.

At the same time, the EPC expanded its initial membership to include Secretary Earl Butz of the USDA and Secretary Frederick Dent of DOC. They were brought into the post-June 13 discussions because the Export Administration Act of 1969 required the determination by the Commerce Secretary that export controls were needed *and* the approval of the Secretary of Agriculture in order to implement an export control program.

The June 13 speech also sparked foreign government reaction, which—especially among the EEC and Japan—was negative. The US was seen as abandoning its role as the most credible supplier in the international market. The President may have considered the international impact of his decision, but nevertheless felt that the American consumer's need for adequate supplies was his top priority. Furthermore, the Nixon-Brezhnev meeting was about to take place, and Nixon and Kissinger were looking to decisions which they considered more important in the realm of foreign policymaking.

From June 13 onward, export controls were a foregone conclusion. Everyone was awaiting the DOC's first export monitoring report.

THE ACTUAL IMPLEMENTATION PHASE: JUNE 27 TO OCTOBER 1, 1973

The first DOC Bulletin issued on June 27 showed exports of soybeans and soybean meal running 6% and 27%, respectively, above previous USDA estimates for July and September 1973.

Agriculture determined the June 15, 1973, domestic supply of old crop soybeans to be between 245 million and 265 million bushels. Commerce reported scheduled exports of 92 million bushels for July 15 to August 30, which left about 130 million bushels for domestic crushing and exports—about a month's total supply. Domestic prices for soybeans were more than 200% above those of June 1972; soybean meal prices had climbed 320% above the June 1972 level.

Under authority of the Export Administration Act of 1969, on June 27, 1973, the Secretary of Commerce, with the grudging approval of the Secretary of Agriculture, imposed an embargo on the export of soybeans, cottonseed, and their oil and meal products because it appeared that the supply was not adequate to meet the domestic require-

ments until the new crop of soybeans became available. The Secretary of Commerce also announced that on July 2 the method of allocating the exports of the embargoed products would be announced.

On the afternoon of June 27, Secretary Dent informed Steven Lazarus, Deputy Assistant Secretary of Commerce and Director of the Bureau of East-West Trade (which included the Office of Export Administration and the Short Supply Division), that in view of his general responsibilities in the area of export control, he was to organize and chair an Interagency Policy Group for Implementation (IPGI) to devise the most appropriate method for allocating exports of these products by July 2. Thereafter, he also was to chair an Operations Group which would actually run the Export Control Program.

On the evening of June 27, IPGI met for the first time to discuss various options for the implementation of export controls. The IPGI membership was identical to the ITF/FEC membership with the addition of Michael Boerner, Assistant to Julius Katz at State. David Gunning and the ITF/FEC, which by June 27 had disbanded, had prepared an options paper detailing the various possible systems of export control. The next step was a hard look at the various options presented and a decision on the best one.

In deciding how to allocate exports of these commodities, it was first necessary to determine what actual quantities could be exported. This was done by using Department of Agriculture estimates of available inventories of the various commodities to the end of the respective crop years. From the total inventories, the IPGI deducted domestic supply requirements, arrived at with the advice of the Department of Agriculture, and the resulting figure represented supplies available for export.

After extensive review and verification by a team of auditors of the various export reports, it was estimated that the amount of soybeans available for export represented 50% of the volume of the outstanding contracts. It should be noted that the IPGI used June 13 as a cutoff date since contracts entered into after that time would have been with knowledge of the possibility of export controls. It also was determined that the quantity of soybean oil and meal available for export was approximately 40% of the volume of contracts in effect on June 13, 1973 for shipment during the remainder of the crop year. The second question to be answered was allocation of the quantities available for export.

Members of the IPGI, which Lazarus chaired, met with industry representatives in Washington on June 29. The purpose of this meeting was to obtain information and advice on how the export marketing system worked, and what the exporters recommended as the best method of allocating various

commodities. IPGI attempted to have the group representative of the entire industry, including large grain exporters, small exporters, and the co-operatives which the group hoped would reflect the interest of their farmer members.

After considering all the possible options, it was concluded that the most equitable and least administratively complex method for allocating the available export supply was on the basis of contracts in effect on or before June 13, 1973. On this basis, the contracts for export of soybeans entered into on or before that date for delivery during the remainder of June, July and August would be licensed for 50% of the contract. Similarly, contracts for the export of soybean oil and meal entered into on or before June 13 would be licensed to the extent of 40% of the contract. Contracts entered into after June 13 for delivery prior to the new crop year would not be licensed at all.

This method of licensing was announced on July 2, 1973 when the embargo was lifted.

On July 5, Commerce Secretary Dent announced that 41 additional categories of agricultural commodities would be subject to export controls. This action was necessitated by the controls previously imposed on the export of soybeans, soybean oil cake and meal, and other products. Soybean and soybean oil cake and meal are used for high protein feed for livestock. The reduction in expected shipments immediately caused a substantial increase in demand for other sources of high protein feed.

During the first three weeks of July, a number of meetings were held between the IPGI and the EPC. Kenneth Dam played a notable role as the intermediary between the EPC and the ITF/FEC during the implementation planning phase and later, between the EPC and the IPGI during the actual implementation phase. He was the most significant interlock figure in the whole soybean decision. He straddled the vertical relationship between the top level policymakers represented by the *ad hoc* EPC, chaired by Shultz and senior-level policy and implementation staffs chaired by Gunning and Lazarus. He directed the communications channel between these groups.

The largest struggle for the IPGI during the month of July was to set up an organization with the following responsibilities: process the data which flowed in copious amounts, concerning shipments, transfers of export contracts, new estimates from the USDA on availability, etc., and try to computerize this information (necessary, because of the immense volume of material); process export license applications, which were pouring in at a voluminous rate; verify the legitimacy of the contracts; and continue the audit program.

Later, the Operations Group, chaired by Lazarus and supervised by Wilson Sweeney, DOC Assistant

Director of the Office of Export Administration, was divided into two: a data processing group; and a license application processing group.

On August 1, the Department of Commerce announced that licenses for soybean exports for shipment during September would be issued on the basis of 100% of the unfilled balance of orders which had been accepted by the exporter on or before June 13, 1973, and previously reported to the Department.

The soybean crisis for 1973 had ended almost as quickly as it had begun. By October 1, 1973 all commodity traders and government departments were operating normally.

II. ASSESSMENT OF THE PROCESS

The following establishes the degree to which each of the elements of an ideal process of decision and implementation, with respect to the soybean export controls decision, was actually attained.

Special care will be taken to identify elements inadequately performed and to briefly assess the significance of the particular inadequacy.

(a) Was a reasoned conception of United States objectives present during the decision-making process?

A reasoned conception of US objectives was devised by the ITF/FEC in early June. The US objectives of an export control system were conceived as follows:

- (1) reduction of domestic prices for farm products in the short and medium term;
- (2) encouragement, or at least avoidance of discouragement, of the farmer to increase production of commodities in short supply;
- (3) minimizing disruption of the domestic and foreign markets for US commodities and preserving the potential for future export expansion;
- (4) minimizing the adverse effect of export controls on agricultural negotiations with the major trading nations;
- (5) maximizing administrative simplicity and flexibility to allow fine tuning and ultimate dismantling of the system without long lead times and severe disruptions; and
- (6) channeling any windfall gains resulting from export controls to the appropriate parties.

(b) Was the best obtainable information relevant to the decision made available?

During the past years of domestic surplus, the accuracy of crop estimates, including export reporting and projected carryover stocks, did not receive much attention. An Agriculture spokesman said that as long as surpluses were adequate, inaccuracies in crop estimates and statistical reporting were acceptable. However, with reduced reserved stocks,

increased prices, and domestic shortages, the need for accurate statistical reporting became crucial. A July 5, 1973 study of the impact of expanded agricultural exports on the domestic economy by the Congressional Research Service concluded:

"The current crisis situation might have been avoided, or could have been eased, if exporters had been required to report their export sales on a current basis and if the Administration had not been so reluctant to moderate the free market in the face of widespread crop failure and instability in international currencies."

Although the reporting requirements initiated on June 13, 1973 provided an element of specificity, they did not resolve some problems that have been cited as causes of inflated or distorted export reports, especially in the case of the soybean controls problem. These unresolved problems concerning the soundness and validity of information included:

1. the failure to adequately clarify export agreements entered into between parent companies located in the US and affiliates in foreign countries in which the ultimate destination was not disclosed, possibly resulting in misleading interpretations of foreign demand;
2. lack of specific information to identify the actual exporters and to avoid possible double counting resulting from a lack of such specific information;
3. overbuying by foreign importers and inflated export statistics due to anticipation of government imposition of export controls; and
4. US exporters purchasing—for export purposes—grain which was eventually resold to the domestic market, resulting in exaggeration of foreign demand and of export statistics.

(c) Were the implications flowing from that information effectively canvassed?

The export reporting system initiated by the Department of Commerce on June 13, 1973 covered food grains (wheat and rice), feed grains (corn, barley, sorghum, oats), soybeans, and primary products of these commodities used in animal feeds. The major concern was with commodities that had an important influence on the price of animal feeds, where price increases had been exceptionally large. The export reporting system was to provide a substantial flow of information that was not available on the then-current and prospective demands for the nation's supplies of commodities essential for domestic food supplies. The export reporting system would provide vital information upon which further actions could be taken. There were two good reasons why the information available from the export reporting system was thoroughly canvassed before a system of export controls could have been recommended. First, export control was

a strong action—it conflicted with other national objectives. The government did not want to restrict exports unless it was clearly required to achieve stable food prices for American consumers. In the weeks that followed the government received new information, particularly about the number of acres farmers were able to plant during the year and expected production from those acres. The reporting system provided more complete up-to-date information about intended purchases by other countries. As this information became available, it began to show that the total potential export contract volume far exceeded the availability of soybeans, especially when the domestic requirement was first subtracted from the availability figures.

Second, the information which clearly implied the need for export controls was immediately suspect. The definition of sale was considered ambiguous. Agriculture officials complained that the DOC statistics contained "water".

The most apparent inferences flowing from the information made available on June 27 were:

- (1) there was a serious shortage of soybeans;
- (2) the price of soybeans had skyrocketed;
- (3) the soybean price was directly related to the instability in the domestic price of food; and
- (4) to continue to export soybeans in the volumes indicated by contracts outstanding would have meant taking food from the mouths of American consumers to feed foreign buyers.

Only Agriculture officials firmly believed that the DOC statistics were seriously inaccurate. Most officials agreed that there might have been a certain percentage of "water" in the statistics. However, Secretary Butz believed that the DOC data which implied a need for export controls were overstated by a factor of two. More importantly, Butz believed in the validity of the price system and the effectiveness of a free market economy. He believed that price controlled supply. He had repeatedly stated that both the Congress and the media had overexaggerated the correlation between inflation and food and feed prices. Butz had contended that past commodity shortages and distortions in market activity resulted from government intervention in the production, marketing, and pricing of agricultural commodities and that such intervention impaired the effectiveness and efficiency of a free market economy.

Therefore Butz, a firm believer in a noninterventionist market economy, never suggested or sympathized with the possibility of export controls. The only implication that Butz could draw from the available information was that the price would in good time control the available supply of soybeans, as the natural effects of a free market economy took hold. Although auditors had been sent into the field

to verify the DOC statistics, Butz remained adamant in his support of a noninterventionist policy. Unfortunately, the Butz philosophy had become outmoded with the imposition of Freeze II. It seemed that everyone but the Department of Agriculture had realized that export controls appeared to be the natural concomitant to Freeze II.

There was no other implication of serious merit considered by the pro-export control faction. Only Agriculture officials worried that an export control system would put other countries on notice that the United States was an unreliable source of essential supplies. Consequently, it would be a powerful argument in importing countries for those who urged policies designed to reduce dependence on all American farm products. It was an argument that farm groups in Europe certainly used. And export controls worsened our balance of payments in precisely the area, agriculture, where our position was strongest.

(d) Was there a full range of realistic alternative courses presented for consideration?

A full range of alternative courses was never presented for consideration because almost from the beginning of June a panic-stricken environment had been created by the increased domestic inflationary spiral in food prices. In the context of the soybean decision, an abiding distrust in the ability of a free market economy to control supply and price increases was demonstrated in the highest levels of the Administration, almost from the outset. With that distrust deeply imbedded in the highest echelons of government, it was difficult to imagine an alternative course which did not include an export control system. In fact, the only other viable alternative course would have been a noninterventionist policy as espoused by Secretary Butz. This policy, even if considered as an alternative course, was given but a moment's serious consideration.

(e) Was a full range of relevant considerations applied?

As previously discussed, the domestic political considerations were of primary importance in this decision. Domestic economic considerations certainly played a part. It should be emphasized, however, that all considerations were focussed only on the domestic perspective.

The possibility of starvation among foreign countries dependent on America as a reliable supplier was never really considered in the decision process. The fact that export controls could have caused a change in other countries' foreign policies toward the United States was never considered. No one considered international notification of, and consultation on, the imposition of export controls. Quite possibly, the creation of diplomatic formalities, to provide a minimum of buyer notification, would have helped to defuse foreign reaction. Even compilation of export control practices by a single

center within the government and periodic publication would have highlighted the prevalence of such controls and the threat they posed.

The above actions would have provided some form of minimal deterrence to export controls in June 1973. They would have exposed such actions to international view and reaction. They would have probably forced delays in implementation, and therefore would have offered more opportunity for countervailing forces to develop. And they would therefore have strengthened the position of opponents of such measures (both in and out of the government).

An important fact that many key decision figures claimed was considered was the risk that advance consultations on export controls would have led to public awareness of the possibility and would have triggered speculative purchases of the commodity. This, in turn, might have intensified the problem and increased the likelihood of controls.

It could be argued, however, that this risk was no different than the anticipation effects generated by international consultations on changes in exchange rates, import controls, and limitations on capital flows—all of which are required under long-standing international agreements. As in these cases, markets could have been closed while the consultations proceeded with tight time limits imposed on the process, or any measures actually implemented could have been made effective from the date they were first *proposed* (instead of the date on which final agreement was reached). In addition, efforts could have been made to develop international understandings on a product, well in advance of any need for actually controlling its export.

This arrangement would have been similar to the standby agreements which potential borrowers at the International Monetary Fund negotiate, well in advance of any actual need to draw the money, which in fact, often need never be activated.

(f) *Were all appropriate participants consulted?*

It should be noted that the *ad hoc* EPC which met at the White House did not include Secretary Butz or Secretary Dent until consensus for imposition of an export control system had already been reached. As a matter of law, the Secretary of Agriculture needed to approve the imposition of export controls and the Secretary of Commerce was the cabinet level implementing officer of the control system. After the consensus for export controls had been developed among the EPC members, John Dunlop approached Secretary Dent and explained the procedure that needed to be followed to impose the control system. Dent, together with Dunlop, then met with Butz to request his approval. The decision to impose export controls had been presented to the Secretary of Agriculture as a *fait accompli*. Nevertheless, after the first week in June, both

Butz and Dent were to play major roles in the implementation of the controls on soybeans.

With Kissinger's arrival in the White House, the State Department was preempted from participation in much of the foreign policy making area. Therefore, the State Department was not consulted concerning international considerations until after the decision had been made. Instead, the National Security Council was consulted about the possibility of carrying out international consultations and negotiations. Once the decision had been made, however, the senior staff level bureaucrats of the State Department were consulted in order to soften the impact and reaction of the foreign countries involved. It can be argued that a fuller range of considerations would have been discussed had the senior staff level bureaucrats of the State Department been consulted at an earlier stage of the decision-making process.

Furthermore, it can be argued that had the Department of Agriculture been consulted at an earlier time, at the Cabinet level, Butz would have been given more of an opportunity to convince his peers (i.e., Shultz, et al.) that the DOC data and related figures were significantly "watered".

(g) *Was the decision taken at the lowest level capable of making it effectively?*

It is arguable that the Director of the Foreign Agricultural Service (FAS/USDA) could have acted as chief coordinator for staff level analysis with respect to a decision to impose export controls on soybeans. As a middle level bureaucrat in the Department of Agriculture, he would have been able to coordinate all of the work among his peers at the other relevant departments. This staff level analysis would then have been passed on to the Assistant Secretary level for further analysis. The Assistant Secretary level in turn could have requested further staff analysis prior to consultation with the Secretary level. Therefore, after several "staffing outs", the Assistant Secretary would have been better able to make a sound final presentation to his superior.

In other words, in a standard operating procedure, the middle level bureaucrat and senior staff level bureaucrats within the relevant departments would have played a much more active and viable role in policy formulation.

With respect to the soybean decision, it is important to note that the policy-making process was conducted at the highest government levels. When interviewed, the chief protagonists in the soybean case claimed that there was good reason for deciding to impose export controls in a "top-down" manner. They claim that it was important to maintain a high level of secrecy because of the possibility of rumor causing a panic in the futures market. If lower level bureaucrats had been allowed to involve themselves in staff analysis, the probability of hav-

ing a "leak" was much greater than if analysis were limited to the highest levels of the bureaucracy.

It is arguable that the justification for secrecy was really no more than an attempt to mask a Nixonian habit of centralizing decision-making within the White House. It should be remembered that secrecy could not have been that important a consideration because the President had explicitly referred to a system of export controls in his June 13 speech. However, it is possible that prior to June 13 the Nixon economic and political advisers had recommended that secrecy be imposed. It should also be noted that secrecy was imposed only from the beginning of May to approximately the very beginning of June. Thereafter, more and more departments had become aware of the soybean problem. The reason for opening up the senior staff and middle staff levels of the various departments at a later stage was that once the decision had been made it was felt that implementation could be facilitated by the coordination of large interagency staff meetings.

(h) Was the decision made communicated to those responsible and effected in a timely, and clear fashion?

Steven Lazarus, as Deputy Assistant Secretary of the Department of Commerce and as Director of the Bureau of East-West Trade, was informed the afternoon of June 27 by Secretary Dent that he had been mandated to chair the IPGI and there were but five days to create a workable and efficient plan. Lazarus and his fellow workers were taken by surprise. William Letson, the then General Counsel of the Department of Commerce, had been in charge of the Division of Short Supply of the Office of Export Administration. Letson resigned his position as DOC General Counsel in mid-June 1973. Therefore, the Secretary of Commerce decided that the Director of the Bureau of East-West Trade was the man most suited for filling the void created by Letson's departure. Notwithstanding Lazarus' relative inexperience with respect to short supply problems, he was able to coordinate the IPGI in a timely fashion because of the aid rendered by several of the members of the ITF/FEC who had done analysis with respect to mechanisms for export controls, and the practical experience brought to the crisis by middle level bureaucrats like Katz of State, Sweeney of Commerce, and Ioanes of Agriculture.

With respect to the timeliness and clarity of the implementation process, it can be said that Lazarus and the Operations Group, which he chaired, were able within a time frame of only five days to implement a licensing system which was chosen primarily because of the ease of administration.

(i) Were actions of those responsible monitored to insure compliance with the decision?

To insure compliance with the decision, the Operations Group established a system of auditing in

which employees of both the Departments of Agriculture and Commerce conducted field research in order (a) to verify the DOC statistics concerning the volume of export contracts outstanding and (b) to develop the most pragmatic definition of "export sales contract". Unfortunately, the ambiguity and generality of the exporters' interpretations made it practically impossible for the Operations Group to reach a consensus with respect to a clear definition of "exports sales contract".

Without reaching a clear definition of the problem, it became virtually impossible for the Operations Group to insure compliance with the decision. The 50%-40% licensing system based upon exporter's quotas, to operate effectively, needed to be founded upon an accurate reading of the volume of business outstanding. If the appraisal of the amount of business conducted were inaccurate, the amounts allocated would be equally inaccurate. As it turned out later, the amount of contracts on the books as of June 13, 1973 far exceeded, by almost a factor of two, the actual amount of business conducted. More importantly, the auditors had seriously underestimated the degree of instability inherent in the agricultural commodities market. Consequently, the criticism of government officials interviewed consistently centered around the fact that neither the Department of Agriculture nor the Department of Commerce had developed a capacity to measure accurately the level of exports.

(j) Were the results of the decision noted and assessed?

As a result of the 1973 soybean decision, many government officials interviewed insisted that a much better detailed and researched set of data would be necessary for them to decide to impose export controls in the future. They feel that, had a more accurate set of data been made available to them in June of 1973, the decision would not have been made as it was. On the other hand, other government officials claimed that even without the imposition of export controls, the market would have acted almost in the same manner that it did after the imposition of controls. In other words, the economic result would have been the same with or without export controls.

(k) Were the resources committed to the decision commensurate with the task?

The resources in terms of time for complete staff analysis were insufficient. The time frame was so short that sufficient resources could not have been mobilized even if existent. This was the classic "top-down" decision. The President, as a matter of political necessity, on June 13 authorized the imposition of a freeze on domestic food prices and, as a natural concomitant, authorized an immediate gearing up for the imposition of export controls. Therefore, the economic data obtained by the Department of Commerce gave the EPC sufficient rea-

son to impose controls under the existing legislation without having to await the formulation of new legislation, which would have required much more time. The political decision to impose controls had been made before the economic data to support it were available.

(l) *Was the decision process as open and public as was consistent with its nature?*

The decision process involved in imposing soybean export controls was neither open nor public. The need for secrecy, necessitated by the sensitivity of the soybean futures market, coupled with the possibility of increased speculation, according to most officials interviewed, made it impossible for the decision process to be either open or public.

(m) *Was the decision and action taken broadly consistent with the public's sense of US interests and of the legitimate means of advancing those interests?*

President Nixon and his domestic political advisers saw the need to assuage American consumer frustration. At the time, the American public may have perceived the need for the creation of a new food price control program. John Q. Public could not easily formulate the contents of the plan but realized the need for one. Controlling food prices and the flow of American products seemed to the layman, at least for the short run, the easiest solution to inflation.

It should be noted that on July 18, 1973, in a speech delivered to the American people, President Nixon said:

"To relieve the extreme (sic) high prices of feeds, which have an important effect on prices of meat, poultry, eggs, and dairy products, we have placed limitations on the export of soybeans and related products until the new crop comes into the market. These limitations will remain in effect for that period. But permanent control of exports is not the policy of this government, and we do not intend at this time to broaden the controls beyond those now in force. *To a considerable degree, export controls are self-defeating as an anti-inflation measure.* Limiting our exports reduces our foreign earnings, depresses the value of the dollar, and increases the cost of things we import, which also enter into the cost of living of the American family. Moreover, limiting our agricultural exports runs counter to our basic policy of building up our agricultural markets abroad. Unless present crop expectations are seriously disappointed or foreign demands are extremely large, export controls will not be needed. However, report of export orders for agricultural commodities will continue to be required. *Our policy must always be guided by the fundamental importance of maintaining adequate supplies of food at home.*" (Emphasis Added)

Therefore, with respect to the public's sense of U.S. interests, no American would have argued with President Nixon's perception of the problem and his solution to that problem.

III. ASSESSMENT OF OUTCOME

The experience of Freeze II, while apparently necessary to stabilization efforts, demonstrated the dangers of imposing a strict price freeze on an expanding economy, operating near capacity. During September 1973, the first month of the 1973-74 marketing year, prices received by soybean farmers averaged \$5.81 per bushel, compared with \$3.26 in September 1972.

The imposition of soybean export controls aimed for two main results: 1) to maintain price stability at home (especially food prices); and 2) to avoid a shortage at home.

With respect to maintaining price stability, soybean meal prices reached a peak of \$412 per ton in June 1973. For the 1972-73 season, they averaged approximately \$230 per ton, more than double the previous year. During September 1973, they averaged around \$200 per ton. Many price economists claim that the same shift in prices from June 1973 to September 1973 would have occurred without the imposition of an export control program. Therefore, it is difficult to determine how much the export control program directly benefited the price stability objective. It may be said, however, that the imposition of export controls at least helped to defuse the inflationary psychology surrounding the food price spiral.

With respect to avoiding a shortage at home, it later turned out that there really was no physical shortage of soybeans. The DOC data concerning export contracts outstanding were far from accurate. Government officials claim that without export controls, foreign buyers would have received the same amounts of soybeans that they received under the export control system. Therefore, the American consumer was left with the same amount of soybeans that he would have had without an export control system.

The decision to impose soybean export controls hardly achieved any of the U.S. objectives for an export control system:

(1) It did not reduce domestic prices for farm products in the short and medium term.

(2) It did not encourage and, in fact, discouraged the farmer from increasing production of commodities in short supply.

(3) It did minimize, by utilizing such a short time frame, the disruption of the domestic and foreign markets for U.S. commodities, but it also

definitely damaged the potential for future export expansion.

(4) The adverse effects of export controls on agricultural negotiations with our major trading nations were the following:

(a) a program on the part of the EEC to become more economically self sufficient—reversing a long history of dependence on American suppliers;

(b) a search on the part of Japan for alternative suppliers of soybeans and other substitutes;

(c) allowing Brazil to sever a major soybean contract from a U.S. supplier; and

(d) a general derogation in the confidence of the U.S.A. as a reliable world supplier (the most profoundly negative consequence of a precipitous action).

(5) The export control system employed did maximize administrative simplicity and was flexible enough to allow fine tuning and the ultimate dismantling of the system without long lead times and severe disruptions.

(6) It channeled any windfall gains resulting from export controls to the exporters.

IV. ASSESSMENT OF PARTICIPATING ORGANIZATIONS

It should be noted at the outset that the major organizational units significantly involved were for the most part *ad hoc*. In other words, all the major organizational units (EPC, Seevers' Group, ITF/FEC and IPGI) were composed of interagency membership.

Short supply decision-making involves many Executive branch departments, other agencies, and high level policy groups. A study of the stated responsibilities of these organizations indicates that many of their functions overlap in the commodity area because the effective short supply decision involves not only domestic economic policy and political considerations, but also international trade and foreign policy. The memberships of the major organizational units in the soybean decision (i.e., EPC, Seevers' Group, ITF/FEC and IPGI) were composed of all the following formal organizations (with the exception of the State Department which was represented in ITF/FEC and IPGI only):

1. *Agriculture*, which is directed by law to acquire the diffuse comprehensive information on agricultural subjects in the areas of research, education, conservation, marketing, regulatory work, agricultural adjustment, surplus disposal, and rural development.

2. *Commerce*, whose mission is to foster, serve,

and promote the Nation's economic development and technological advancement through activities that encourage and assist states, regions, communities, industries, and firms.

3. *State*, whose Secretary, as the principal foreign policy adviser to the President, is responsible for the overall direction, coordination, and supervision of U.S. foreign relations and for interdepartmental activities of the U.S. Government overseas.

4. *Treasury*, whose Secretary, as a major policy adviser to the President has primary responsibility for formulating and recommending domestic, international, financial, and tax policies and for participating in formulating broad fiscal policies of general significance to the economy.

5. *CEA*, which analyzes the national economy and its various segments, advises the President on economic developments, appraises the economic programs and policies of the government, recommends to the President policies for economic growth and stability, and assists in preparing the economic reports of the President to the Congress.

6. *CLC*, which develops and recommends to the President policies, mechanisms, and procedures to achieve and maintain stable prices and costs in a growing economy; keeps prices and wage policies consistent with fiscal, monetary, international, and other economic policies; and informs the public, agriculture, industry, and labor about the need for controlling inflation and encourages and promotes voluntary actions to that end.

7. *CIEP*, which provides a top level focus for the full range of international economic policy issues and investigates and recommends policies that will be consistent with domestic economic policy and basic foreign policy objectives.

8. *NSC*, whose function is to advise the President on the integration of domestic, foreign, and military policies relating to national security.

THE DEPARTMENT OF AGRICULTURE

The soybean problem might have been avoided if Agriculture had acted sooner and more decisively. The tight supply of soybeans which existed through crop year 1972-73 continued into the next crop year, partly because of Agriculture's commodity management concept of minimizing involvement in a free market economy.

Although Agriculture recognized the many factors contributing to the soybean problem, it did not develop a strategy to cope with the uncertainties. Agriculture might have considered (1) consultations with major soybean importers to limit their purchases, (2) discussions with exporters to limit

foreign sales or to defer fulfilling existing contracts, and (3) establishing a reporting system to provide more precise information on the extent of export commitments.

Consistent with Agriculture's posture that domestic users should compete with foreign buyers for available soybean supplies, a coherent and comprehensive commodity reserve program was lacking within the USDA. Some soybeans were held under a Commodity Credit Corporation loan program, but no government program insured that the U.S. would, at all times, have adequate domestic supplies of soybeans and soybean meal. The Soybean Estimates Committee, which provides overall guidance to Department policymakers, derived its carryover, or reserve figures, by subtracting the amount of soybeans projected for domestic use and export from the amount of estimated total production. In essence, Agriculture backed into the amount that could be considered the nation's soybean reserves.

In an effort to identify possible structural changes within the Department of Agriculture that might have produced a soybean crop sufficient to avoid export controls, it is necessary to discuss the possible implementation of a comprehensive reserve program. A reserve program, responsive to the needs of the consumer, farmer, and exporter (1) would insure against the future recurrence of serious supply problems in soybeans and other essential grains, (2) would satisfy basic domestic and international supply commitments, and (3) would also prevent the U.S. from periodically considering imposing export controls which disrupt trading relationships with regular importers of U.S. farm products. Agriculture officials, however, express opposition to the concept of establishing a reserve program on the basis that, over the long run, market forces are the best determinants of supply and demand levels.

THE DEPARTMENT OF COMMERCE

The Office of Export Administration (formerly the Office of Export Control) of the Department of Commerce implements short supply export controls. The Office is responsible for:

- Developing regulations.
- Establishing export reporting systems.
- Issuing export licenses.
- Designing actual control systems.
- Enforcing regulations, including compliance.
- All operational duties involved in developing and maintaining short supply export controls.

Since its inception following World War II, the Office has performed in an era of limited short sup-

ply problems. Traditionally, it has been primarily responsible for controlling exports of strategic materials abroad, which has led to its organizational location in Commerce's Bureau of East-West Trade. Nearly all its efforts have been structured toward that specific objective.

In the past, staff members already involved in strategic materials control activities were responsible for implementing short supply controls. Since these actions were temporary and occurred infrequently, the Office responded to short supply problems on an *ad hoc* basis. No permanent implementation program was ever established for commodity shortages because officials assumed that there would be sufficient supplies of commodities available to meet both domestic and foreign demand and that the free market system allocated resources effectively under both surplus and shortage conditions.

The assumption proved inaccurate, however, and in June 1973, the Department of Commerce/Bureau of East-West Trade/Office of Export Administration/Short Supply Division was called upon to devise and administer a short supply control program.

From the outset, the Office of Export Administration was not prepared for its enlarged short supply role. A June 1973 Commerce memorandum stated that:

"The Bureau of East-West Trade has not budgeted for nor does it have personnel available for such a short supply program . . . Establishing the program, which includes the allocations of quotas to exporters and the processing of export license applications, will be onerous for industry and government, but when the program is underway, personnel requirements can, hopefully, be reduced . . . To implement this program we will need access to a computer for tabulating and analyzing the weekly reports. Personnel requirements would have to be greatly increased if the program were conducted manually."

With respect to both Agriculture and Commerce, the agricultural export reporting system established by Commerce in June 1973 provided export information which led to the export controls on soybeans and related agricultural commodities. Although Agriculture finally agreed that a domestic shortage of soybeans existed, a debate soon emerged between Commerce and Agriculture over the accuracy of the information. Although Commerce admitted that its figures were exaggerated to some extent as a result of early administrative problems in developing and compiling information, its export reports continued to differ with Agriculture's estimates even after those difficulties were resolved.

The failure of Commerce and Agriculture to rec-

oncle their difference over the accuracy of reported exports was due, in part, to an interagency conflict that emerged over the question of which agency was ultimately responsible for interpreting export information gathered by the Office of Export Administration. Agriculture contended that it was responsible because of its extensive experience in grain export marketing. Commerce maintained that it was responsible because of its short supply authority under the Export Administration Act of 1969 and the Presidential directive of June 13, 1973, ordering it to establish an agricultural export reporting system. The question was resolved when the Congress assigned the function to Agriculture as part of the new Agriculture Act. The conflict reduced the information's effectiveness, however, because policymakers did not know on which agency's figures to rely. If Commerce's estimates were right, for example, most of the nation's soybean crop for 1973-74 had been committed for export by July 1973. If Agriculture was right, adequate stocks existed for domestic supply purposes.

Thus, it can be said that both Commerce and Agriculture were ill-equipped and unprepared to handle a short-supply situation.

DEPARTMENT OF STATE

Crucial for minimizing adverse foreign impact to export controls is the State Department's inclusion as a significant force in the export control decision-making process. The failure of the Executive branch to include State in the final decision to impose export controls on soybeans and cottonseeds precipitated intradepartmental discussions on the subject.

A recommendation to include State in the decision-making process at an earlier stage was eventually conveyed to the Chairman of the EPC by the Secretary of State through informal discussions in the late summer of 1973. In confirmation hearings before the Senate on September 12, 1973, the Secretary of State said that the State Department must actively participate in export control decision-making because:

"... when it comes to export controls this is one of the matters that the State Department must ... participate (in) extremely actively, because ... our whole foreign policy, our whole foreign agricultural policy has been based on the assumption that we wanted a free market in agricultural products. Many other nations have geared their economy to the assumption of regular supplies from the United States. If suddenly we reversed this policy ... it would affect those people's judgment of the constancy of America's policy generally ...

"... it sometimes happens ... I think it hap-

pened in the case of soybeans, that a decision is taken on extremely economic grounds ... is taken so rapidly that the foreign policy agencies do not get either adequate warning or an adequate opportunity to express themselves."

TREASURY DEPARTMENT

This department played no active role as an organizational unit in the soybean controls decision because EPC chairman Shultz was Secretary of the Treasury and represented his department at all deliberations. There was no senior staff level input from Treasury.

CEA

This group played a purely policy making function. It did not involve itself with implementation. Staff memoranda formed the basis for interagency involvement. CEA laid the groundwork for the development of the issues of export controls.

CLC

The CLC centralized food price policy within the White House. Prior to the inception of the Economic Stabilization Program on August 15, 1971, food price policy formulation had been spread among the several line agencies—most notably, Agriculture, Commerce and State. After the CLC's birth, President Nixon faded out the involvement of the line agencies, and the legislation which created the CLC gave it inordinately great powers without having to confer with other line agency officials. Unfortunately, Dunlop exhibited a disregard for the possible international repercussions of soybean export controls. He believed in export controls, and CLC, under Nixon, usually had its way.

Unfortunately the CLC's mandate was too broad and often its perspective was narrowed because of the inherent biases of its chief.

CIEP

CIEP in the persons of Flanigan and Gunning aided in the coordination of efforts between the various agencies after June 13. However, CIEP, as a formal organization, played a minor role (especially at the cabinet level) in the formulation of economic policy analysis when compared to the CEA or CLC.

NSC

The NSC effectively played no role in the soybean case. Kissinger was too concerned with the Nixon-Brezhnev summit meeting and time did not permit his involvement. His aide, Charles Cooper, was inexperienced and could do nothing but listen.

THE PRESIDENT AND HIS DOMESTIC POLITICAL ADVISERS

The President had decided from the outset that the imposition of export controls was predominantly a domestic decision. Neither he nor his domestic political advisers ever seriously considered the international political ramifications of the soybean decision. Consequently, his primary concerns were domestic. President Nixon had precluded the possibility of a viable alternative to export controls as soon as he had agreed to the premise that soybean controls would favorably affect domestic food prices. As was later apparent, the President's premise was incorrect.

It has been said with respect to the soybean decision that President Nixon was inordinately swayed by the advice of certain domestic political advisers, namely, John Connally, former Secretary of the Treasury in the Nixon Administration and (at the time of the soybean decision) recently appointed Special Counselor to the President; Melvin Laird, newly appointed Executive Director of the Domestic Council (formerly headed by John Ehrlichman); Bryce Harlow, Special Assistant to the President; and Virginia H. Knauer, Special Assistant to the President. It has been said that both Laird and Harlow insisted to the President that the American consumer must come first. They insisted that no other consideration could color the President's judgment.

It appears that the Domestic Political Advisers and CLC convinced the President that price controls and export controls could help to solve his and the nation's problems. Everyone proved to be incorrect.

V. THE PROBABLE PERFORMANCE OF ALTERNATIVE ORGANIZATIONAL STRUCTURES

THE STRONG WHITE HOUSE MODEL

The positive features of this model are as follows:

- centralization of foreign economic policy decision in one location;
- assumed access to and clear direction from the Presidential level;
- defined foreign economic objectives to serve as operating guides; and
- assumed high priority of political considerations.

The strong role played by the White House in the soybean decision had the advantage of ensuring that the issue would be directly communicated to the President when the time came for a final decision. In addition, discussions would be carried out

with close surveillance by the White House, unacceptable options would be discarded if not politically feasible, and Presidential staff involvement and concurrence with the final policy recommendation lent weight to the issue resolution. This strong involvement contributes to an orderly decision process.

The following possible weaknesses are observed in that model:

1. A clear statement of only domestic objectives.
2. A totally inadequate treatment of foreign policy considerations, particularly for the long run.
3. Inaccurate data.
4. Inadequate consideration of long-term economic and international political effects.
5. A very small degree of "staffing-out".
6. A totally closed decision process.
7. Little involvement of bureaucracy and its expertise.
8. No consideration of a full panoply of alternatives, criteria, and estimated effects.
9. A system of actor participation that was both arbitrary and capricious.
10. The strong White House model tends to stress people over processes: the role of the individual high level staff *personality* would assume *primary* importance; organizational structure would not be an important variable, and an inordinate amount of political pressure directed at the White House could jeopardize consideration of all interests, both political and economic.

STRONG STATE DEPARTMENT MODEL

The positive features of a strong State Department model are:

- Foreign economic policies could be treated as part of a total foreign policy.
- Comprehensive objectives could be defined and articulated by the one agency responsible for the conduct of foreign affairs.
- Policy formulation and implementation responsibilities would remain in one agency providing opportunity for better coordination.
- One agency would communicate policy to foreign nations.

Strong State Department involvement in the soybean decision would have provided sufficient input with respect to foreign policy ramifications. For example, State Department input probably would have examined the possibility of long term adverse effects on U.S. foreign trade policy. Specifically, the U.S. was sacrificing its long term potential as the chief supplier of soybeans in the world.

The negative features of a strong State Department model are as follows:

—Inadequacy of economic information, expertise, and orientation in the Department.

—No guarantee that all alternatives, options and assessment of effects could be prepared from a single State Department viewpoint.

—Not all appropriate actors in other agencies would necessarily be involved.

—No guarantee that access to and direction from the President would exist unless the Secretary of State were particularly close to the President.

—The State Department should not be responsible for managing domestic political forces, yet these interests would need to be taken into account in soybean export control decisions.

During 1973 the Secretary of State was too weak, and the current Secretary of State has only very recently indicated a willingness to give something like an international food reserves program the time and attention it requires. There appears to be a lack of emphasis on international economics throughout the State Department structure. This may be due to the fact that most foreign service officers find their way to promotion through the political organizational channels rather than through economic organizational channels. Even if the State Department could present the broad policy-making concerns needed, the problem of dealing with the many domestic agencies with a vested interest in agricultural commodities and the weighing of all conflicting objectives is presently beyond the scope of the State Department.

THE TWO TIERED MODEL

The effectiveness of this model depends on a strong Secretary of State with a background and interest in international economics. This model might facilitate a combination of high level location for the weighing of competing objectives, and the foreign policy considerations of the State Department. However, the same problem might exist in this model that existed in the actual case: a need to establish a priority among the various types of objectives being sought. In other words, the political considerations could easily overwhelm the economic objectives. Only a strong willed Secretary of State with a very broad perspective could effectively operate a two tiered model.

THE PRESENT MODEL

The basic problem with the present model is the lack of focussed responsibility for soliciting, weighing, and assimilating inputs of all variables relevant for policy formulation. The present model is centered neither in the White House nor in any single department or combination of departments. A White House model would require its own analytic capability covering the broad range of forces impacting on Agriculture and would assign administrative and narrow analytical responsibilities to the departments. Although CEA is considering major expansion of personnel to provide such a capability, White House policy groups are presently inadequately staffed, too narrowly focussed, or too pre-occupied with current and short term issues to serve policy planning purposes, either by providing their own analysis or by coordinating departmental inputs.

Furthermore, no clear focus of responsibility exists *within* the White House. Four principal agencies are responsible for some aspect of agricultural policy: CIEP, international agricultural policy and development; the Domestic Council, domestic agricultural issues; OMB, budgetary decisions on domestic and foreign agricultural programs and activities; and CEA, macroeconomic developments and their relevance for agricultural policy.

The limitations in the White House model produce a basic dilemma—White House staff officials perceive Agriculture Department inputs as often unreliable, yet have not adequately developed their own analytic capabilities. Thus, these agencies must depend, to a certain extent, on Agriculture analyses in which they have little faith, and individuals with broad economic competence are forced to take positions requiring narrow, specialized expertise.

An alternative, department-centered model would require integrating all relevant variables and developing policy options within the departments—particularly Agriculture—with the White House attempting to monitor and verify this analysis and to place these inputs in a broad policy context. Such a model would require major improvements in the policy planning and coordination function within the departments and successful efforts to improve long range projections. The latter requirement would assume that Agriculture officials understood, and gave proper weight to, variables which originated in other fields.

U.S. Oil Import Policy:

**1) The Decision to Impose Formal
Quotas on U.S. Imports
of Canadian Oil (1970)
and**

**2) The Decision to Suspend All Quotas
on U.S. Imports
of Foreign Oil (1973)**

**1) Kathryn Young Voight
and**

**2) Linda S. Graebner
November 1974**

INTRODUCTION

The following paper analyzes two case studies of foreign economic decision-making in oil import policy. These studies deal with the March 1970 decision to impose formal quotas on U.S. imports of Canadian crude and unfinished oils and the April 1973 decision to replace the U.S. oil quota system with one of license fees. Decision makers in the two cases approached the issue of oil imports from different organizational perspectives. The Canadian decision was dominated by foreign policy concerns, the license-fee decision by domestic issues. While sharing the same policy framework, these two decisions illustrate more differences than similarities in their decision process, action, and outcome. We have undertaken a combined assessment of both decisions in order to provide the Commission with a more complete basis for reaching conclusions on alternative organizational structures for determining oil-related and energy policy.

The first decision, announced on March 10, 1970, was a limited action directed toward one country's oil exports to the U.S. Taken to preserve the integrity of the existing Mandatory Oil Import Program (MOIP), this decision resulted in the imposition of formal import controls on the level of Canadian crude and unfinished oil flowing to the

U.S. The organizational framework for this decision centered primarily in the State Department and White House with supporting assistance provided by the Department of Interior and the interdepartmental Oil Policy Committee, chaired by the Director of the Office of Emergency Preparedness.

The impact of the decision can be considered limited when viewed within the scope of overall U.S. import policy. In addition, the decision was not particularly effective at meeting its objective of limiting imports of Canadian oil. Lasting domestic effects were minimal. However, the effect on U.S.-Canadian relations was more serious and far reaching. This decision, although relatively minor and routine, is important in organizational terms because it illustrates the costs and benefits of a lead agency approach and underscores the complexity of oil policy decision-making.

The second decision, announced on April 18, 1973, was a major action which affected our relations with all oil trading nations, and was taken in response to the realization that the current MOIP could no longer serve as a vehicle for conducting U.S. oil policy. This decision, which replaced the MOIP with a license-fee system, was a departure from existing oil import policy. William Simon, Deputy Secretary of the Treasury, dominated this decision process. The long-term significance of the

decision and its lasting foreign policy impact cannot yet be properly assessed. At present, there are indications rather than conclusive evidence of the decision's effect on world oil trade, oil prices, and the U.S. balance of payments. This decision was important because it illustrated the influence a strong personality can exercise in utilizing organizational mechanisms to meet individual policy goals. It also underscores the limitations of analyzing organizational structures without giving equal attention to the effect different individuals may have on the same structures.

This paper is organized to reflect the interrelatedness of the two oil import decisions while highlighting the distinct characteristics of the separate decision processes. The final chapter presents joint conclusions on the probable performance of alternative organizational structures, as prepared by the Commission, and presents a new one for its consideration.

THE DECISION TO IMPOSE FORMAL QUOTAS ON U.S. IMPORTS OF CANADIAN OIL

Decision Abstract

On March 10, 1970, President Nixon issued Proclamation 3969 which imposed formal limits on the import of Canadian crude and unfinished oil into the United States, East of the Rockies (Districts I-IV), at 395,000 barrels per day for the period March 1 through December 31, 1970. The official rationale for the decision was to institute a more effective system of import controls to accomplish the national security purposes of the Oil Import Program. The White House Press Release accompanying the proclamation further explained: "It has become clear that voluntary controls are not workable. The breakdown of voluntary controls is impairing the management of the present import control program and orderly development of future oil import policies."¹ The problem of how to regulate Canadian imports, short of formal export controls, had plagued both governments almost from the beginning of the Mandatory Oil Import Program (MOIP) in 1959. A series of complex administrative exceptions for Canadian oil had made a patchwork quilt out of the MOIP and led to charges by our domestic industry and other oil trading partners of preferential treatment for Canada. Therefore, in 1967, a secret U.S.-Canadian agreement was negotiated which provided for the Canadian govern-

ment to voluntarily limit the volume of oil exported to the U.S. at gradually increased levels from 1968 through 1971. These arrangements never worked effectively. U.S. government statistics show that actual imports exceeded the projected level into Districts I-IV by 6% in 1966, 3% in 1967, 8% in 1968 and nearly 15% in 1969.²

According to one of the terms of the 1967 U.S.-Canadian agreement, shipments of oil were not to be permitted into the Chicago area until 1970. When individual refineries submitted their 1970 nominations to the Canadian government in late 1969, it became obvious that a significant surge in exports of Canadian oil into the Chicago market could be anticipated in early 1970. These forebodings were confirmed when total imports of Canadian oil in Districts I-IV soared to 550,000 barrels per day (b/d) in January and 634,692 in February, 1970. Increasing U.S. domestic demand coupled with the inability of the Canadian government to control, through voluntary means, an oil industry dominated by U.S. ownership, resulted in a complete breakdown of the agreement. This threat to the MOIP triggered the decision to impose formal quotas on imports of Canadian oil.

At the urging of the Departments of State and Interior, and with White House concurrence, the recommendation to restrict Canadian imports was formally suggested to the President by the Director of the Office of Emergency Preparedness upon the advice of a newly established interdepartmental Oil Policy Committee. In reality, the decision process was dominated by State and White House. The organizational objectives of each guided and defined the decision outcome. The main organizational liabilities of the decision process were internal to one agency, the State Department, and resulted from inadequate organizational consideration of the economic, political, and security aspects of foreign policy repercussions.

Once implemented, the quota system for Canadian oil proved flexible. During the remainder of 1970, and until the end of the Mandatory Oil Import Program in 1973, regulations on Canadian oil imports became less and less stringent. By mid-1970, due to a sudden rise in tanker rates, the delivered price of Middle East oil exceeded the domestic U.S. price. Canadian crude oil prices continued to remain lower than U.S. domestic prices, thus making Canadian oil a desirable supply source.

From 1970 to 1973 increased foreign oil prices resulting from pricing policies of OPEC countries, full domestic production from proven domestic resources, and varying exchange rates all created an economic climate in which the Canadian oil import

¹White House Press Release, March 10, 1970.

²Office of Emergency Preparedness, Office of the Director, March 19, 1970.

quota decision no longer served its original purposes. At the then current rate of production, domestic industry found itself able to compete with foreign producers. World oil prices in the mid-1970s ensured protection without the need for quotas.

In reality, the Canadian quota system became a device to allocate Canadian oil among U.S. refiners rather than to limit imports. Within the context of the total energy concerns of the early 1970s, this decision was marginal.

The impact of the decision on foreign relations was more significant. The State Department displayed an imperfect understanding of Canadian politics, of the leverage effect of mandatory controls in a context of growing scarcity, and of the effect our unilateral action would have on the broader spectrum of relations between the United States and Canada. The U.S., by emphasizing the interconnection between the oil agreement and its well-known desire for a continental energy policy, alienated segments of the Canadian public, industry, and government. Our action was perceived as a power play to force the Canadians into a comprehensive energy agreement, a notion which was particularly unpopular in Canada at the time. Our continued insistence on pursuing this concept resulted in a deterioration of relations between the two countries without achieving any notable progress toward a coordinated approach to the generation, distribution, and conservation of energy.

I. THE DECISION AND ITS BACKGROUND

A. THE MANDATORY OIL IMPORT PROGRAM

The Mandatory Oil Import Program (MOIP) was instituted by President Eisenhower in 1959 under the authority of the National Security provisions of the Trade Agreement Act of 1958. Low priced oil imports were threatening domestic incentives for exploration, drilling and production. The program authorized government intervention in support of domestic price and production to prevent severe weakening of the national economy and to protect essential demand against possible foreign supply interruptions.

The economic rationale for the MOIP was to limit annual oil imports to 12.2% of domestic production, allowing the price of domestic crude oil to rise at least 50% above the cost of foreign crude oil. The additional profit the oil industry realized by selling cheaper imported crude oil at the higher domestic price was intended to encourage development of additional domestic energy sources.

Because a quota system was an inflexible eco-

nomic device, a balancing mechanism was needed. State controlled prorationing served this purpose. Under conditions of excess domestic capacity, state regulatory commissions in the Southern oil states varied the allowable rates for production to meet changes in current demands.

Over time, the MOIP became increasingly complicated to administer. Changing domestic conditions necessitated numerous adjustments and exceptions to what was originally envisioned a fairly fixed system. In a study of oil import quotas, Kenneth Dam concludes that one of the major points to be learned from the oil import experience was "that the attempt to regulate oil imports by quotas led to a series of strains and pressures that could be dealt with only by increasing the complexity of the system".³ Twenty-four proclamation changes from the beginning of the MOIP in 1959 until its demise in 1973 resulted in an oil import program layered with complexities and inequities.

B. CANADA AND THE U.S. MANDATORY OIL IMPORT PROGRAM

The basic issue addressed by the March 1970 decision was how to effectively control the flow of Canadian oil imports into the United States, yet remain consistent with the objectives and operations of the MOIP. From the beginning of the MOIP it was recognized that it would be difficult for the U.S. to restrict Canadian oil imports on national security grounds because of Canada's geographic proximity, its continued friendly relations with the U.S., and the unlikelyhood that other powers could interrupt the supply flow across the Canadian border. In April 1959, six weeks after the program was announced, Canada (along with Mexico) was given special treatment through an "overland exemption" status. This exemption permitted quotas to be waived for imports of "crude oil, unfinished oils or finished products which are transported into the United States by pipeline, rail, or other means of overland transportation from the country in which they were produced".⁴

To forestall a disruption of the U.S. market by cheaper Canadian oil, a series of administrative adjustments and technical definitions dealing with Canadian oil were incorporated into the MOIP. The U.S. Government did not want increasing Canadian imports to injure domestic producers. Therefore, between 1960 and 1963, previously exempt Canadian imports were brought within the 12.2% import ratio. This change in the program meant that Canadian imports, if they displaced any oil suppliers, would displace "third country" rather

³Dam, Kenneth, *Implementation of Import Quotas: The Case of Oil*, Washington, D.C.: The Brookings Institution, 1971, p. 15.

⁴Presidential Proclamation 3290, April 30, 1969.

than domestic producers. With this change in the system, total available petroleum imports for U.S. domestic refiners were calculated by subtracting estimated overland imports of Canadian oil from the 12.2 domestic production percentage figure in Districts I-IV.

Concurrent with this action, the U.S. government began what were to be yearly discussions with the Canadians on the volume of Canadian oil expected to reach U.S. markets in the coming year. This practice was known as the system of annual estimates and allowed Canadian oil to be included within the total oil import program. These annual estimates of Canadian oil never proved accurate because the competitive price advantage of Canadian oil, particularly in the Midwest, attracted increasing amounts of Canadian oil into the U.S. market. The rising level of Canadian imports brought criticism from U.S. domestic producers whose oil began to be displaced by Canadian oil anyway, and foreign countries, particularly Venezuela whose allocation share under the MOIP declined as Canadian imports rose.

Throughout the 1960s the Interior Department attempted to reach some kind of agreement with the Canadian government to keep oil shipments to the U.S. within fixed limits. Negotiations continued until September 25, 1967 when the U.S. and Canadian governments finally reached an understanding expressed in a "voluntary" agreement on future import levels. This agreement, which had been negotiated for the U.S. by a joint team assembled from the Departments of State and Interior, was formalized through an exchange of letters between the Canadian ambassador and the U.S. Secretary of State. The agreement, which was kept secret until March 1969, stated that Canada would not impose formal export controls but through other measures would restrict imports into Districts I-IV to 280,000 b/d in 1968, limit sales from 1969 through 1971 to an increase of 26,000 b/d per year, make no sales in the Chicago area prior to 1970, and satisfy the demands of current U.S. customers before seeking new U.S. markets.

There were two major weaknesses to this voluntary agreement; it provided no enforcement mechanism on the part of either government, and it left basic responsibility for allocation restraints with the Canadian exporting companies, most of which were subsidiaries of American corporations.

C. THE CANADIAN PETROLEUM INDUSTRY AND ITS U.S. MARKETS

The flow of policy from exemption of Canadian imports under the MOIP, 1959-67, to voluntary controls, 1967-70, to the decision to impose mandatory controls in 1970 cannot be separated from oil-related events in Canada and the unique rela-

tionship of the U.S. to the petroleum industry in that country.

Canada's National Oil Policy—The basis for Canadian oil policy was set forth in principles enunciated by the Royal Commission on Energy in 1959 and reaffirmed by the National Oil Policy statements of 1961 and 1964. By 1970 the three basic tenets were firm. These were:

1) *Adherence to the Ottawa Valley Line.* East of the line, in Quebec and the Maritime provinces, imported oil at existing world prices would be used to meet domestic demand; in areas West of the Ottawa Valley the market was to be supplied by products refined solely from domestic petroleum produced at a higher price than imported oil. This energy line led to a two-tiered price system regulated by the Canadian government.

2) *Voluntary Government-Industry Cooperation.* The Canadian government relied on informal rather than formal pressures to elicit industry cooperation to contain the use of imported oil and expand the use of Canadian oil in designated area.

3) *Continued Access to and Expansion of the U.S. Markets.* This is far and away the most important element in the pattern of Canadian oil exports.

The Canadian Oil Industry—With a few exceptions, Canadian petroleum export trade has been directed exclusively to U.S. markets. From 1959 to 1969 these exports grew in volume by more than 500%.⁵ In 1969 exports to the U.S. accounted for 43% of total Canadian oil production. In the same year U.S. subsidiaries in Canada received the largest total foreign outlay from U.S. oil firms, an estimated \$664 million.⁶ According to Canadian government estimates, approximately 30% of total foreign direct investment in Canada in 1970 was centered in the petroleum industry,⁷ and over 91% of the industry's assets and 95% of its sales were through foreign controlled firms, with 80% of the foreign-controlled assets owned by U.S. interests.⁸

Pricing System—Canada's National Oil Policy created a dual pricing system as Canada took advantage of world prices to import less expensive crude oil into areas East of the Ottawa Valley line while protecting its Western domestic markets for higher priced domestic production and exports. Canadian crude oil has been consistently priced below domestic American crude in U.S. markets. In 1970 the price of Canadian oil ranged from 40-70 cents per barrel less than domestic crude in certain parts of the U.S.

U.S. Markets—Imports of Canadian oil into the

⁵ *Independent Petroleum Monthly*, July, 1969.

⁶ *Oil and Gas Journal*, April 14, 1969, p. 100.

⁷ Includes oil and gas exploration, development, and refining.

⁸ *An Energy Policy for Canada Phase I-1973*, Canadian Department of Energy Mines, and Resources.

Pacific Northwest and District V have been relatively noncontroversial in the United States in part because of the security of supply through the Transmountain pipeline, which runs from Alberta to Washington State. Canadian oil flowing into Region V has never faced as continuing or intense U.S. domestic pressures for control as in Regions I-IV because oil import policies in Region V are based on market demand-supply rather than domestic production ratios. Imports into District V, after inclusion of estimated Canadian imports, are generally permitted to fill the gap between domestic supply and market demand at existing prices.

In the Midwest, however, Canadian imports compete with other exporting countries and domestic suppliers. Market features of geographic proximity, low transportation costs, and steady demand have kept the area attractive to Canadian exporters. These favorable factors were recognized in the U.S. In the late 1950s a number of oil companies built refineries along the Canadian border in anticipation of using Canadian supplies. These companies, known as the "Northern Tier" refiners, soon became dependent on Canadian oil. A number of technical decisions within the administrative framework of the MOIP from 1959 through 1969 created a special status for these Northern Tier refiners and upper Midwest producers. By 1970 major Canadian markets centered on the Pacific Northwest, the upper Midwest, and to a lesser degree the Northeast, primarily in the Buffalo, New York area where there were a few refiners using Canadian crude oil.

D. THE DECISION ENVIRONMENT

1. Economic Environment

Participants in the decision process uniformly suggest that the relevant economic aspects of this decision environment were limited to U.S.-Canadian oil and energy economics. Broader foreign and domestic economic considerations were not a major influence on this decision.

Price Differentials—The historic price advantage of Canadian oil became even more pronounced when, early in 1969, U.S. producers raised domestic crude oil prices to \$3.30 a barrel. The effect on Canadian-U.S. oil trade was immediate. U.S. domestic demand for Canadian oil expanded in the Northern Tier, Chicago, and Buffalo markets where refiners could use cheaper Canadian crude oil, or where government allocations policies demanded refining of U.S. crude, refiners could import Canadian crude and exchange it for domestic. Canadian imports far exceeded the agreed upon voluntary limits of 306,000 b/d; from March through December 1969, imports were averaging over 600,000 b/d.⁹

⁹Oil Import Administration, Department of the Interior.

Availability of Supply—The possibility of energy shortages or limits on the availability of domestic supply was not an accepted part of the economic and political thinking of the late 1960s. As late as 1968 and 1969 the general government and academic view was that the U.S. faced the problem of oversupply of domestic petroleum. In reality the problem was just the opposite. Statistics from 1964 showed that domestic industry increasingly would be unable to produce full U.S. requirements for petroleum. By 1969 this was a fact, although still unrecognized or unaccepted by most oil-knowledgeable government officials. One explanation for this is the limitations on available information imposed by the industry-controlled release of oil data. Detailed information on domestic oil industry production was and still is closely guarded by the private sector. Within the industry, projecting estimates on future demand, availability of supply, and adequacy of reserves is difficult under conditions of price-uncertainty. Without full access to industry data the government had to accept existing available information. Although in late 1969 and early 1970 a few companies had given warning signals that the industry was reaching the limits of domestic production in key geographic producing areas, these warnings were not heeded by the majority of government officials. The one government agency which produced figures showing the rapid decline in domestic self sufficiency, the Department of Interior, was ignored by other government agencies, because the accuracy of its data was reportedly suspect.

U.S. Oil Policy Reassessment—On March 25, 1969 President Nixon created a special Cabinet-level Task Force to conduct a comprehensive reassessment of oil import policy. Congressional and oil industry concerns over increasing inequities in the administration of the MOIP led to its formation. The Task Force was an important economic background factor in the Canadian decision. The Task Force's final report recommended sweeping changes in the direction and management of the oil import program. Concluding that the present import control program was not responsive to present and future national security considerations, the Task Force report recommended relaxation of import controls and substitution of tariffs for existing quotas. The Secretaries of the Departments of Interior and Commerce and the Chairman of the Federal Power Commission disassociated themselves from the majority view and filed a separate report calling for retention and modification of the quota system. Their principal arguments were that a tariff system would lead to price-fixing, risk national security by increasing dependence on foreign supplies, discourage domestic exploration and development, and lead to economic loss to the industry.

The final Task Force report set forth a number of

recommendations aimed at achieving a mutually satisfactory long-term arrangement with Canada. The report recommended that a quantitatively limited volume of imports should be initially exempt from increased tariffs and all restrictions other than the existing tariff should be removed on July 1, 1972, if suitable overall energy agreements could be negotiated. A review of both the majority and minority reports reveals general agreement on recommendations concerning treatment of Canadian imports, except for the tariff vs. quota issue. Both groups emphasized the desirability of negotiating a common energy policy and freer imports of oil in exchange for assurances of security of supply.

The Task Force members proposed a new management system which shifted responsibility for oil policy from the Department of Interior to the Office of Emergency Preparedness. This recommendation indicated that Task Force members were aware of the problems associated with administration of the MOIP by a government department with close industry ties. Also, the White House wanted supervision and coordination in the Executive Branch to maintain tighter control over the oil import program.

The Task Force report was given to President Nixon on February 9, 1970. On February 20 he made the report public. While delaying any decision on the proposed tariff plan, the President took two actions which directly affected the Canadian problem. He accepted the Task Force recommendation for a new management system to set policy for the oil import program and directed the Director of the Office of Emergency Preparedness to chair an interdepartmental policy advisory panel initially to include the Secretaries of State, Treasury, Defense, Interior and Commerce, the Attorney General and the Chairman of the Council of Economic Advisors. The President also directed the State Department to continue negotiations toward a freer exchange of petroleum between the two countries.

2. Political Environment

"Oil is the most political of all commodities." ¹⁰

DOMESTIC INTERESTS

The oil industry is a formidable force in the economic and political makeup of our country. The oil lobby is considered to be the strongest of all the special interest groups. Through lobbying efforts, oil politics affect Congress, the White House, and government bureaucracies. When the oil industry is united its political strength can greatly influence policy choices. A case in point was the industry's

¹⁰Anonymous State Department official.

common opposition to the tariff recommendations of the President's Oil Import Task Force report. Industry pressure was so concerted on the White House that the President took no action to change the oil import system even though a majority of the Task Force members recommended the change. At other times however, the industry is not a monolithic force, but instead breaks down into a number of competing factions, making it difficult to assess the actual political power exercised on a given issue. This was true in the case of the Canadian oil problem.

Because of industry secrecy over exactly how much money is spent on oil lobbying or on whom, it was difficult to gain specific information on the activities of the oil industry regarding the Canadian oil import decision. Generally the industry lined up for and against imposing formal quotas on a regional basis (the Southwest oil producers wanted controls, the Midwest and New England refiners did not). Formal lobby groups were also divided on this issue. The nationally based Independent Petroleum Association of America, representing about 60% of independent oil producers, favored import controls on Canadian oil. The Northwest Petroleum Association, representing independent oil distributors in Minnesota and North Dakota opposed the quotas. Major oil companies with branches or subsidiaries in Canada predictably favored open rather than restrictive trade policies.

A major political influence on the decision to impose import controls on Canadian oil appears to have been that White House concern over upcoming Congressional elections. Six of the top seven oil producing states had voted Republican in 1968. Ensuring Republican victories in a number of Congressional races in those states in November 1970 was important to the White House.

INTERNATIONAL INTERESTS

The foreign political aspects of this decision were important factors in the decision process, particularly as perceived by the State Department and the White House. These considerations revolved around two major issues: the triangular oil relationship between the U.S., Canada, and Venezuela and the U.S. goal of achieving a coordinated Canadian-U.S. energy policy.

CANADA AND VENEZUELA

The State Department was particularly concerned that our special oil arrangements with Canada under the MOIP not jeopardize our political and trading relations with Venezuela, particularly since Venezuela was one of the few remaining Latin American countries still friendly with the U.S.

A COMMON ENERGY POLICY

A continental approach to oil policy was first suggested by President Eisenhower in 1959 and reaffirmed three years later in a Cabinet level report prepared for President Kennedy. The idea reappeared in early 1969 when Canada's Prime Minister Trudeau visited Washington. During discussions with President Nixon, both individuals agreed that the idea was worth exploring in greater detail.

From March 1969 on, the U.S. began to push hard for an agreement on a continental energy policy covering oil imports in both countries. During the remainder of 1969, in all its oil dealings with the Canadian government the U.S. continued to press for broader energy negotiations. In early 1970 upon release of the report of the Task Force on Oil Import Control, President Nixon again underscored this goal when he stated:

"All members also agree that a unique degree of security can be afforded by moving toward an integrated North American energy market."

3. Organizational Environment

The March 1970 action was taken in a highly transitional decision environment. Management of the oil import program had been transferred, one month earlier, from the Department of Interior to the Office of Emergency Preparedness. Policy assistance was to be provided by a newly formed interdepartmental Oil Policy Committee. Technical administration of the program was retained in the Oil Import Administration section of the Department of Interior. Until creation of this new system, the Departments of State and Interior, with close guidance from the White House, had been the main organizational units involved with Canadian-U.S. oil import policy. Because the organizational change was so recent, these two departments continued to be instrumental in the Canadian oil import decision. The formal decision framework under the February 1970 organization and the actual framework of the Canadian decision are charted on page 41. Roles of key governmental organizational units, in order of importance, and major actors in the 1970 decision are briefly described as follows. *The Department of State* having been responsible for diplomatic relations with the Canadian government, and actively involved with Canadian-U.S. oil import negotiations for almost 10 years, played the lead role in this decision. Principal State Department actors included Philip Trezise, Assistant Secretary of State for Economic Affairs; Julius Katz, Deputy Assistant Secretary for International Resources and Food Policy; and James Akins, Director of the Office of Fuels and Energy. The U.S. embassy in Ottawa and the Office of Canadian Affairs at the State Department in Washington were limited participants.

From State's viewpoint, the issue of maintaining the integrity of the MOIP, through action on Canadian imports, was based on a combination of foreign and domestic, economic and political considerations. These included:

- promoting the longer-range goal of comprehensive energy talks between the two countries and providing the U.S. with a favorable negotiating position to begin these talks.
- finding an acceptable level of Canadian imports which did not impinge on Venezuelan exports to the U.S. Venezuela was particularly upset and had been complaining to the State Department for years about Canada's special treatment under the oil import program. The maintenance of a stable Venezuelan government through a stable economy was a primary State Department objective.
- ensuring that Canadian oil remained a secure source of supply State's concern was that if eastern Canada, in an emergency, were to lose access to its imported oil, it would turn to the U.S. for assistance. This was likely to happen because there was no pipeline from western to eastern Canada available for transshipments.¹¹ Oil supplies from Canada were in reality only as secure as its foreign oil supplies. Another factor affecting the security of supply was that the 1969 level of exports from Canada to the U.S. left no reserve capacity in Alberta.
- balancing the interests of major oil producers in Texas, Louisiana, and Oklahoma who wanted the influx of Canadian oil kept under control against those of the upper Midwest refiners dependent on Canadian oil and U.S. owned petroleum producers operating in Canada who wanted all available Canadian oil shipped to the U.S.

Throughout the 1960s and into 1970 the State Department negotiations with Canada were aimed at either reaching a level of imports acceptable to U.S. producers or convincing the Canadian government to take actions which would guarantee security of oil supplies. When negotiations reached a stalemate early in 1970, the State Department recommended to the White House and to the Oil Policy Committee that formal import controls be imposed on Canadian oil.

The White House reassumed responsibility for oil import policy in February, 1970. Although the President made the final decision to impose formal import quotas on Canadian oil, those involved with the decision credit Peter Flanigan, the President's Special Assistant, as being the determining influ-

¹¹This concern was based on previous experience when during the 1967 Suez crisis, the U.S. diverted approximately 3.7 million barrels of oil to meet Eastern Canada's needs.

ence in this decision. Flanigan, who carried primary responsibility for oil policy within the White House, was himself deeply involved in setting the strategy for Canadian-U.S. bilateral negotiations in early 1970 and served as Philip Trezise's main contact for policy instruction during the negotiations.

The White House position favoring control of Canadian oil imports was based on three points:

- The Canadians were operating a dual pricing system which benefited their interests at the expense of those of the U.S.
- This system, besides having price disadvantages, did not ensure a secure supply of oil in Canada.
- In order to start negotiations on a common energy policy, the U.S. had to "nudge" the Canadians. White House officials felt that the decision to impose formal import controls on Canadian oil would provide this nudge by conveying our serious desire for broader negotiations.

The Department of Interior had key oil-related responsibilities which accounted for its involvement in the Canadian decision. Before February 1970, Interior had carried the organizational responsibility for the direction and administration of the Oil Import Program and its technical expertise had been used in the bilateral U.S.-Canadian oil import negotiations. Even with the February 20 shift in oil policy responsibility, Interior still remained the focal point for information on petroleum matters in the federal government and continued to be a major link between the government, the petroleum industry and the oil producing states. Interior personalities and their organizational units involved in the Canadian decision included Hollis Dole, Assistant Secretary for Mineral Resources; Ralph Snyder, Deputy Administrator, Oil Import Administration; and Del Perry, a lead staff member of the Office of Oil Import Administration. The position taken by the Interior Department on the Canadian issue reflected a fundamental organizational philosophy that imports should be restricted to maintain U.S. national security through the preservation of a stable and economically domestic industry. This protection of the domestic industry was the motivating factor in Interior's position on the Canadian decision.

OFFICE OF EMERGENCY PREPAREDNESS (OEP) AND THE OIL POLICY COMMITTEE (OPC)

The White House press release of March 10, 1970 implied that responsibility for the Canadian oil decision rested with the OEP and OPC. Actually, both did little more than ratify and announce a decision that had been under consideration at State, Interior, and the White House for several

months. According to observers at the time, the rationale for the delegation of oil policy authority to the Director of OEP was to separate oil policy formulation in OEP from policy implementation in Interior. It was hoped that OEP would assume an independent policy position, one not organizationally intertwined with industry interests. Because, in early 1970, OEP had no oil-knowledgeable staff it was forced to rely on existing expertise in the Department of Interior. Until OEP developed its own staff expertise this office was not able to assume the policy responsibilities delegated by the President. The OEP Director's views on the Canadian problem reflected the orientation of his organization rather than an understanding of the specifics of the Canadian issue. Under the Trade Expansion Act of 1962 OEP was given statutory responsibility for determining if imports threatened the national security. General Lincoln believed that unrestricted Canadian imports impaired the operations of the MOIP and thus threatened U.S. national security.

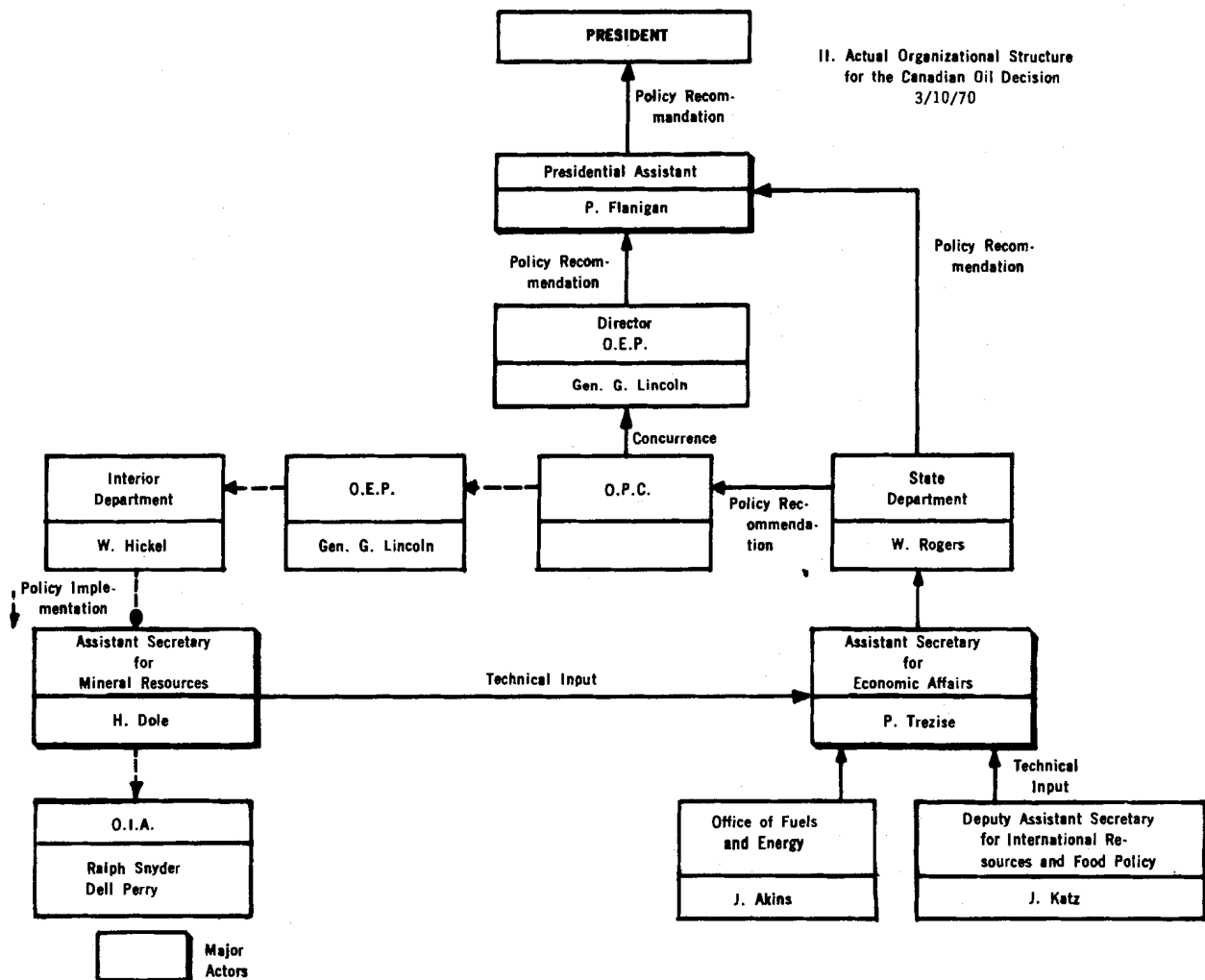
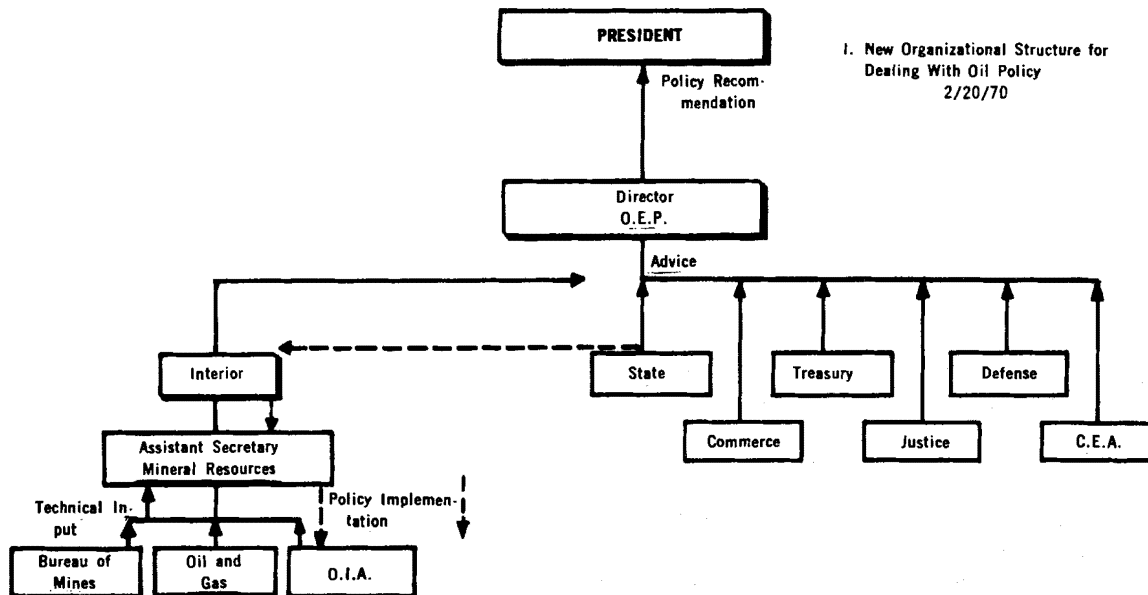
OPC members agree that they contributed little to the Canadian decision. When the issue was discussed in the first OPC meeting, the departments of Commerce, Treasury, and Defense generally supported the imposition of controls. The department of Justice and CEA questioned controls, but not vociferously enough to cause debate within the meeting. From conversations with members of the OPC and its Working Group, and review of Congressional testimony, the following institutional positions emerge. (See Table I.)

Department of Commerce accepted the arguments of security of supply, the maintenance of good relations with Venezuela, and movement toward a common U.S. Canadian energy policy. In addition, Commerce spokesmen emphasized the objectives of achieving interregional and intercompany equity to avoid permitting certain Northern Tier states and refiners a competitive advantage over other geographical areas. This issue was not seen as a particularly important decision from Commerce's viewpoint. Maurice Stans, Secretary of Commerce, and Stanley Nehmer, Deputy Assistant Secretary for Resources, represented Commerce in the OPC.

Council of Economic Advisors favored liberalizing rather than restricting oil import policy and felt that the Canadian decision would be a step backwards from the Oil Import Task Force recommendations. This agency also argued that imposition of import controls was not in the best interest of the consumers. Hendrick Houthakker represented the CEA on the full OPC and in the Working Group.

Department of the Treasury did not consider the Canadian issue a critical one but did support the position that imports of Canadian oil should be regulated to avoid disrupting domestic markets. Treasury representatives also accepted the security

TABLE I.—FORMAL AND WORKING STRUCTURES



of supply and competitive advantage arguments in agreeing to this decision. Paul Volcker, Under-Secretary for Monetary Affairs, and Victor Mack, a special projects staff member, were Treasury representatives to the OPC.

Department of Justice contributed little to this decision beyond raising questions of possible antitrust implications and agreeing with the CEA that imposition of controls on Canadian oil would not benefit consumers. Richard McClaren, Chief of the Antitrust Division, was the primary representative from the Justice Department.

E. CHRONOLOGY OF THE CANADIAN OIL DECISION (1969-1970)

Although some thought had been given to imposing legal restraints on Canadian imports of oil in 1968, it was not seriously discussed until 1969. We have therefore begun our detailed chronology in early 1969 and carried it through March, 1970. For purposes of analysis, we have divided the decision process into three stages: (1) government recognition/definition of the problem; (2) government decision; and (3) policy action. Implementation is dealt with in the section on assessment of decision outcome. Key decision points have been identified, followed by an explanation of how (in what ways) each decision point affected the decision process or at what points alternative courses of action might have been pursued. The following chronology is, by necessity, general, because the details of the decision process involving internal bureaucratic discussions and U.S.-Canadian negotiations are administratively classified.

1. Government Recognition/Definition of the Problem (February-December 1969)

From Early 1969 until early 1970, the U.S. and Canadian governments worked together to try to achieve a mutually acceptable solution to the problem of excessive Canadian oil imports. Early in 1969 it became obvious that because the voluntary agreement was not working, some action was needed to regulate Canadian oil imports. Throughout that year high level private and public meetings were held between Canadian and U.S. officials in an attempt to reach a solution to the problem.

In mid-March, 1969, a State Department spokesman informed the press that estimated first quarter shipments of Canadian oil were exceeding the agreed-upon level by approximately 84,000 b/d. He further stated that the U.S. government had advised the Canadian government that Canadian exports would have to be adjusted to avoid further excess of the agreed-upon 306,000 b/d.

On March 24, Canadian Prime Minister Trudeau paid a State visit to the U.S. During meetings with the President covering a wide range of economic

and security issues, Nixon and Trudeau discussed the oil import question. The Nixon-Trudeau meeting fixed a new boundary on the decision parameter. From this point on, the concept of a U.S.-Canadian continental energy policy became a cornerstone of the U.S. position on Canadian oil policy. In dealing with the immediate issue of Canadian oil imports, the U.S. began to structure its foreign policy strategy around this broader energy goal.

While Nixon and Trudeau continued their two-day meeting, Canadian Senior staff officials accompanying the Prime Minister met with their Washington counterparts to discuss oil imports. These talks centered almost exclusively on settling the oil issue, but no significant progress was reached in obtaining an agreement. A series of meetings in early April were no more successful. An impasse remained over exactly how and by how much oil imports should be regulated.

Throughout the spring and early summer, the Canadian government attempted to restrict the flow of oil exports to the U.S. Canada's National Energy Board requested U.S. refiners in the Great Lakes area to cut back their purchases of Canadian crude oil so that the terms of the 1967 agreement could be maintained.

In late June high-level U.S. and Canadian officials met once again in Washington. Again the two sides could not reach an agreement on either the level of oil imports for the coming year or on elements of a common energy policy.

On August 6, 1969 the Canadian Embassy, in a letter to the State Department, expressed hopes that limitations on exports, under the 1967 agreement, could be removed as they had proved unworkable. In another note to the U.S. Cabinet Task Force reviewing oil imports, the Canadian government asked for an easing of restrictions against Canadian oil. The note stated that Canada attached "the highest importance" to continuing the exemption from U.S. import controls and asked for unrestricted access of its oil to U.S. markets.

By the end of August, 1969 the State Department realized that the U.S. government would have to assume responsibility for controlling imports as the Canadian government could no longer do so. At this point, U.S. officials in State and Interior began preparing policy option papers and consulting between each other and with the White House on how to control Canada's imports and at what levels.

No further meetings were held between U.S. and Canadian officials until December, when Canada's Minister of Energy, Mines and Resources, J.J. Greene, met with the U.S. Secretary of the Interior, Walter Hickel, in Washington D.C. At the press conference following these discussions, Greene endorsed the concept of a common energy policy, although he did not agree to a revised level for

Canadian exports of oil to the U.S. Once Greene returned home he found his endorsement had been somewhat premature. The Canadian press and parliament strongly criticized Greene for his commitment to a common energy policy.

By the end of the year, State recognized that the present voluntary oil import system was not working (Canadian imports during 1969 had exceeded the agreed-upon level of 306,000 b/d by 270,000 b/d), negotiations were going nowhere, and chances for a continental energy policy were diminishing.

2. Government Decision (January-March 1970)

The process of choice among alternatives was a fairly rapid one made under conditions described as "urgent." The intensity imposed on the decision process by the State Department resulted from a breakdown in U.S.-Canadian oil negotiations in mid-February.

Between December, 1969 and February, 1970, several meetings were held with State and Interior officials and Peter Flanigan at the White House. Options were discussed, alternative courses of action were selected, and a negotiating position was developed. Although the details of these meetings remain classified, their existence indicates that the government was following a decision process that included analysis of options. In mid-January, the oil press reported that U.S. officials had warned the Canadian government that if steps were not taken to hold down the flow of imported Canadian oil, formal controls might be imposed.

On February 10 and 11, 1970, U.S. and Canadian officials met in Ottawa to renegotiate the 1970 voluntary agreement, discuss the oil import program and agree on longer run energy concerns. U.S. agencies, led by State's Philip Trezise, included State, Interior, the Federal Power Commission, and the Office of Science and Technology. According to those on the scene, the Canadians were under pressure from their National Energy Board and suppliers and producers in Alberta to push for a substantial increase in the level of permissible imports. The Canadian industry wanted an expanded U.S. market to further its own development. U.S. negotiators were under conflicting pressures from U.S. refiners and producers but the message from the White House was clear, a limit had to be agreed to. As a negotiating position, the U.S. was willing to settle on a 1970 import level approximating estimated first quarter 1970 shipments of Canadian oil. However, because each side was using different data, the two governments were unable to agree on a mutually acceptable barrel per day figure for 1970 imports.

The impasse in negotiations took U.S. policy makers by surprise and charged the atmosphere

with resentment and hostility. The major U.S. actor, Philip Trezise, saw no choice but to recommend to the White House that formal import controls be placed on shipments of Canadian crude oil to the U.S. It might be argued at this point that U.S. policy makers could have rediscussed alternative solutions.

Institutional constraints in the State Department prevented this. Having failed to reach a negotiated agreement, State Department officials felt they had been outmaneuvered and wanted to show the Canadians that the U.S. was not going to be appeased.

At some point after February 20, the decision was made by the White House to refer the Canadian oil matter to the newly established OPC rather than take unilateral action on State's recommendation. This referral was strategically the key for it legitimized the new organization's responsibility for oil policy and provided an additional opportunity for other interested parties to participate in the decision.

A discussion of petroleum imports from Canada was the principal agenda item at the first meeting of the OPC on February 25, 1970. State, represented by Philip Trezise and James Akins, presented the case for imposing controls. The OPC agreed to recommend imposition of formal import controls. OPC details on the level of controls were left to State. The next day the OPC held a second meeting in which committee members agreed on a suggested level of 395,000 b/d. A committee composed of representatives from OEP, State, and Interior was established to draft the press release. The OPC Working Group was given responsibility to draft the Presidential proclamation and coordinate the new regulations.

3. Government Action, March 2-30, 1970

Once the recommended action was agreed upon, administrative details and technical regulations remained to be worked out before the decision could be publicly announced. At this point in the process, OEP and the Oil Import Administration in the Department of Interior assumed lead organizational roles.

On March 2, General George Lincoln submitted the proposed oil import proclamation change to the Bureau of the Budget with a letter to the President explaining the provisions and intent of the proclamation. This was standard operating procedure for proclamation changes. Beginning on March 2, news leaks in the *Washington Post*, the *New York Times*, the *Journal of Commerce* and the oil press indicated that controls on Canadian oil would be imposed soon. On March 3, the OPC Working Group recommended to the full committee allocation criteria for implementing the new system.

These criteria were accepted by the OPC and included in the proposed regulations.

On March 5, State submitted a memo to the White House explaining the basis for the OPC action and attached a proposed press release on the decision. Five days later, on March 10, after consultation on the issue with his Special Assistant, Peter Flanigan, President Nixon announced temporary, formal restrictions on the imports of Canadian crude and unfinished oils. The following day, March 11, the Oil Import Administration published the proposed regulations covering administrative procedures in the *Federal Register*. Comments were to be submitted by March 20 to the Oil Import Administration and the regulations were to go into effect March 30.

Meanwhile, Canadian reaction to the U.S. action was understandably unfavorable. Debate in the Canadian House of Commons on the U.S. imposition of controls focused on whether the Canadian government had been secretly negotiating quid-pro-quo increased oil imports for a common energy policy. The Canadian government sent an official letter of protest to the U.S. State Department asking that the quota decision be reconsidered and the controls removed as soon as possible.

On March 20, the Senate Subcommittee on Administrative Practices and Procedures held hearings to discuss the administration of the Oil Import Program, specifically in reference to the decision to impose restrictions on imports of Canadian oil. General George Lincoln was the primary witness at these hearings. He was accompanied by State's Philip Trezise, and Dudley Chapman, Lincoln's special assistant on loan from the Justice Department. This hearing served as the primary forum, besides the March 10 White House conference, for explanation and justification of the Canadian oil decision. During the hearings it became obvious that much of General Lincoln's testimony and rationale for the decision was unacceptable to several committee members, particularly Senator Kennedy. In this hostile environment an adequate explanation of the decision proved difficult. On March 30 the Oil Import Administration published the final regulations for the Canadian import plan.

II. ASSESSMENT OF THE DECISION PROCESS

The following section analyzes the adequacy of the decision process culminating in the imposition of formal quotas on imports of Canadian oil. It uses only those elements of an ideal decision process (outlined in a previous Commission paper) that are applicable to this case.

A. WAS A REASONED CONCEPTION OF U.S. OBJECTIVES PRESENT?

One problem which characterized the Canadian oil decision was the multiplicity rather than the absence of objectives. Each organizational unit involved appeared to be operating to meet its own institutional objectives rather than responding to a well defined strategy based on an overall national oil policy. Although the Oil Import Task Force report had been released, in early February, the President had not yet indicated whether national oil import policy would be changed in response to the findings of the Task Force. Formal Presidential acceptance of the majority view would have diminished the likelihood that quotas would be imposed on Canadian oil. Lacking any such policy guidance, each decision actor relied on institutional political or personal objectives to reach a conclusion on whether to impose formal controls on Canadian imports. No attempt was made to integrate oil import policy with any broader energy policy.

B. WAS THE BEST OBTAINABLE INFORMATION RELEVANT TO THE DECISION MADE AVAILABLE?

Oil data are commonly recognized as being highly unreliable. Available governmental data on oil rely on one major source, the oil industry. The problem with total reliance on industry data is four fold: (1) differences between sectors of the industry and non-standard definitions in reporting capability cause variation in the data, (2) special government consideration to industry not requiring oil companies to submit certain geological data results in incomplete data, (3) the absence of checks and balances from non-industry sources means that there is no independent verification of the accuracy of the information, (4) the acknowledged difficulty of accurately projecting estimates of future energy supply and demand under unknown political, economic, and social conditions hinders accurate estimates.

In mid-1969 Interior officials met with White House staff to review domestic oil supply and demand forecasts. Interior statistics pointed out the decline in U.S. self sufficiency was approaching one million barrels per day. Interior officials warned of diminishing spare capacity (the difference between productive capacity and actual production) which had been decreasing at a rate of one million barrels a day since 1965 and was projected to be zero by 1974 or 1975. The White House challenged the accuracy of these figures, and viewed them as undermining the Task Force deliberations then in progress. In an attempt to attain further documentation the White House sought Department of

Commerce input. Commerce's figures varied from Interior's; therefore the White House gave full credence to neither set of statistics.

By early 1970, the most up-to-date, comprehensive analysis of the oil situation, the Oil Import Task Force Report, was already widely criticized for the inaccuracy of its data. U.S. production was reportedly over estimated as were Canadian and Venezuelan short- and mid-term reserve and production capabilities. Tanker costs were estimated to remain permanently at much lower levels than they did in the ensuing months.

Besides a general inadequacy and mistrust of available data, the U.S. government suffered from a lack of knowledgeable experts in the oil field. One informed official estimated that in the late 1960s there were probably no more than a half dozen oil experts in the entire government. Policy preparation under these circumstances was understandably difficult.

In the Canadian oil decision those participants who were concerned with the short-term U.S.-Canadian oil import issue felt existing data were complete enough to reach a decision. It was sufficient to know how much oil had come into the U.S. the past month and the past year, and to compare the quantity with the amount expected under the terms of the 1967 agreement. However, for those decision participants who were looking at the longer-term energy environment, existing information was admittedly inadequate and misleading. The complete and accurate information so necessary to making a sound economic decision was absent in this case, and the "best obtainable information" was not used because its accuracy was not recognized. What was lacking in the government was an accepted policy oriented information capability to collect data on all factors likely to affect the supply, demand and price of oil in the U.S.

C. WAS A FULL RANGE OF REALISTIC ALTERNATIVE COURSES PRESENTED FOR CONSIDERATION?

During late 1969, several alternatives were considered by the Assistant Secretary and Director levels at State and Interior in an attempt to find a solution to the problem of limiting Canadian imports.

Various approaches reported to be considered included:

1. Establishment of a level for refinery feedstock imports from Canada into Districts I-IV, plus allocations to individual refiners in the U.S.
2. A voluntary system of imports to companies using Canadian oil in the midwest but with import rights eliminated if a company exceeds its "voluntary" quota.
3. A "disincentive" system that would penalize

a refiner using Canadian oil for the excess he imports above the quota, or "voluntary" level set for him by reducing his quota for off shore imports by the amount, barrel-for-barrel of the excess of his Canadian imports.

There is no evidence that these alternatives were presented for consideration in the January, 1970 OPC meetings. Most OPC participants felt the Canadian issue was presented as a fait-accompli. Minutes from these meetings show no discussion of policy decision options. By the time the issue reached the OPC, the alternatives were to do nothing or impose controls. The selection of alternatives was necessarily constrained by the organizational objectives of the two major participating departments favoring controls, State and Interior. From available information on the range of alternatives considered, it appears that several other alternatives might have been studied including:

- Imposing tariffs.
- Placing more emphasis on U.S. production.
- Accepting a higher level of Canadian imports and revising the 12.2% ratio so as not to "back out" other foreign sources.
- Continuing negotiations with the Canadians toward reaching an acceptable level.

D. WERE ALL APPROPRIATE PARTICIPANTS CONSULTED?

Those agencies most continuously involved in oil relations with Canada and the Mandatory Oil Import Program (State, Interior and the White House) played significant and appropriate roles in the decision-making and implementation stages. Within the State Department, however, neither the Office of Canadian Affairs nor the embassy in Ottawa was included in the decision process. These were the two sections of the State Department most knowledgeable in Canadian affairs and should have been consulted about the impact of the decision. Instead, Philip Trezise assumed this role because of his prior dealings with the Canadians. The OPC, as an institutional mechanism, was not adequately utilized in the formulation of the Canadian oil policy decision. Individual members of the OPC, with the exception of the Justice Department, were familiar with the Canadian issue from their participation in the Cabinet Task Force on Oil Import Control and could have contributed to the policy deliberations with some knowledge of the issue and its relationship to the total oil import program. The OPC should have been used as a forum to analyze existing, and develop a wider range of, alternatives instead of providing technical support after the decision was made.

E. WAS THE DECISION TAKEN AT THE LOWEST LEVEL CAPABLE?

The President made the final decision on the Canadian oil issue as provided for in the Trade Expansion Act of 1962. Peter Flanigan, the President's personal assistant was the major contributor to the final presidential decision. He met with the President only once on the matter, sometime between March 5 and March 10. At the bureaucratic level, major actors included Assistant Secretary and Director levels of the Departments of State and Interior. Preliminary preparation of options (to the extent that it took place) appears to have been completed at this level rather than the working staff level. One justification for this is that because of the political sensitivity to adjustments in oil policy, high level deliberations would reduce the likelihood of news leaks or errors. Accepting this argument, the level of decision background preparation was proper.

F. WAS THE DECISION COMMUNICATED TO THOSE RESPONSIBLE AND EFFECTED IN A TIMELY, CLEAR FASHION?

The transition from decision action to decision implementation was accomplished smoothly through the vehicle of the Oil Policy Committee. The Oil Import Administration (OIA), the unit which had been given presidential authority for day-to-day administration of the oil import program, was represented at the OPC working group level by Ralph Snyder, and in the full policy committee by Hollis Dole. Even though the OPC assigned primary responsibility for drafting the administrative details of the proposed change in regulations to its working group, staff members from OIA did most of the actual work. From the time the decision was publicly announced, the OIA became the government point of contact for questions on the Canadian quota. Because OIA had been included in decision deliberations, its staff was familiar with the issue, and because the final decision was consistent with Interior's institutional objectives, OIA found it easy to carry out the implementation.

G. WERE ACTIONS MONITORED TO INSURE COMPLIANCE?

The mandatory controls on Canadian oil were closely monitored and frequently adjusted. The OPC, working through the OIA, continued to oversee the implementation of the program and effect necessary changes as the price, supply and demand for domestic and world oil changed. The regulations which were to go into effect March 30, 1970, would run only through June 30, when a new set of

regulations would be published. This action gave the OPC and OIA time to evaluate the effects of implementation, reassess the requirements and make changes accordingly. Numerous adjustments were made to the quota plan in its first nine months of operation, each with the concurrence of the OPC. The OPC to the best of its ability to understand and digest the economic complexity of oil import quotas, monitored the implementation of this decision well.

H. WERE RESULTS NOTED AND ASSESSED?

The Canadian oil quotas were modified and the regulations relaxed as events showed that the quotas were no longer desirable. Because the decision makers intended the Canadian quotas to be flexible from the outset, adjustments proved to be no problem. When it became obvious, in mid-1970, that the Canadian government had no intention of entering into a continental energy agreement and that domestic oil production was reaching capacity while domestic demand was surpassing expectations, the major underpinnings for the decision collapsed. These results were noted, assessed, and regulations were revised accordingly throughout the next several years.

I. WAS THE DECISION PROCESS AS OPEN AND PUBLIC AS WAS CONSISTENT WITH ITS NATURE?

The decision process was totally closed, secret, and limited to Executive department actors and the President's assistant in the White House. The only input provided by Congress and the public (represented by special interest oil groups) was political pressure directed at whoever was estimated to be the locus of decision power at a given time. Oil decisions have traditionally been made in secret so that no segment of the industry will benefit from advanced knowledge which might be used for competitive advantage over other firms. In this case, however, provision of a forum for discussion on an issue which was becoming more critical should have been considered. The Canadians, the industry, and certain Congressional leaders knew the U.S. government was considering imposing formal quotas.

The pros and cons of the issue should have been brought out in open hearings instead of being restricted to private deliberations within the Executive branch.

J. WERE THE DECISION ACTIONS BROADLY CONSISTENT WITH THE PUBLIC SENSE OF THE U.S. INTEREST?

There is no single national interest to which oil policy can respond. Instead, there are a variety of

regional political and industry interests which may converge or conflict on any given oil issue. Public interest or opinion, as a broad mandate going beyond public oil industry interests, was not a factor in this decision making process. In reaching this decision, key government officials did not consult with any consumer groups, nor were any public hearings held.

This decision was treated as a foreign policy and domestic oil industry issue. If more "public interest" oil consumer-oriented groups had been involved, the result probably would have been to increase the political pressures not to impose controls in that import controls usually mean higher domestic prices. Yet it can be assumed that certain oil interests would have applied equally rigorous counter pressures in support of controls. It is difficult to estimate whether the decision would have had a different outcome if more non-governmental groups had been consulted.

III. ASSESSMENT OF THE DECISION OUTCOME

The following section analyzes the decision outcome from two perspectives: (1) subsequent events resulting from, and relating to, the initial decision, and (2) decision participants perception of the adequacy of the decision outcome.

A. ASSESSMENT BASED ON SUBSEQUENT EVENTS

Canadian Oil decision-related events occurred in both domestic affairs affecting the oil industry and Congress, and foreign affairs affecting Canadian-U.S. relations.

1. The Domestic Oil Industry

The Northern Tier and Midwest refiners reacted negatively to the Canadian oil action. Of the more than 20 comments filed with the OIA, most challenged either the legality or the equity of the proposed regulations. The OIA, responding to these industry concerns, made several changes in the regulations before final publication on March 30. Industry refiners continued to operate under the new regulations until early June, 1970 when they renewed their complaints about restrictions on Canadian oil. Again, in response to criticism by refiners, the OIA revised the regulations. By November, 1970 due to the relaxation of administrative regulations, Canadian oil had been permitted to increase by approximately 20% over the initial 395,000 b/d figure. From 1970-72, amended regulations allowed sufficient additions of

Canadian oil so that the quota, in fact became one of filling the gap between supply and demand at existing price levels. With further relaxation of import quotas from a 1972 level of 570,000 to a 1973 level of 675,000 b/d, the capacity of the Interprovincial Pipeline, which essentially defined the limits of Canadian crude oil into Districts I-IV, was, for all practical purposes, full. Even though formal quotas remained, they had no real meaning.

The decision participants in the State Department and White House correctly assessed industry reaction to the decision and planned, from the beginning, to ensure that no segment of the industry suffered undue hardships. Maintaining flexibility in the quota allocation plan ensured that foreign Canadian supply would meet U.S. domestic demand once U.S. domestic supply was at full capacity.

2. The Congress

As also anticipated by the decision-makers, southwestern, New England, and midwest congressional reaction was critical. During hearings called by Senator Kennedy's Subcommittee on Administrative Practices and Procedures, he made charges that in imposing quotas on Canadian oil imports:

- No public hearings were held on the proposed action.
- No finding was made by law before quotas were imposed that Canadian oil imports were impairing our national security.
- Only 10 days, rather than the traditional 30-day comment period, were available.
- The action went against the Task Force recommendation that restrictions be imposed only as part of a transition to a tariff system.

The administration response to these charges was:

- The action was a Presidential proclamation for which there is no required hearing.
- No additional finding of national security considerations beyond the 1959 finding was necessary for the action.
- Exceptions, in the case of emergencies, are permitted under the Administrative Procedures Act. These exceptions were invoked.

Although decision-makers in the State Department predicted that the Administration might be called upon by Congress to justify the Canadian action, those bureaucratic actors more familiar with the decision did not assist General Lincoln in preparing an adequate defense. Nevertheless, Congress took no further action. The convening of the hearings appears to have served as a forum for post-decision Congressional reaction rather than pre-decision action, and points up one of the limita-

tions of Congressional involvement in trade matters. Without an organizational framework or mechanisms that provide for input into quota decisions, the Congress can do little more than react to such decisions *ex post facto*.

Negative Congressional reaction continued through other channels. On March 25, 1970, 25 northern state senators sent a letter to the President denouncing the Canadian oil action. Five months later in August, a bipartisan group of members of Congress sent another letter to the President, recommending immediate restoration of the exemption for imports of Canadian crude oil. On December 14, six New England governors challenged the constitutionality of restrictions on oil imports in the federal courts. From 1970 through 1974, these letters of protest and legal actions were coupled with eight separate House and Senate hearings on oil imports. No action was taken to rescind the decision.

3. Foreign Relations

"One of our difficulties when it comes to understanding foreign countries is that we think of them almost exclusively in terms of foreign policy, whereas they are thinking of themselves much more in terms of domestic policy."¹²

George Kennan's remarks are particularly applicable to the Canadian oil case. Canadian reaction to the oil import quota action was either incorrectly assessed or U.S. policy-makers were not particularly concerned that they might affront the Canadians.

A review of the facts indicates that there was continuing misperception from both Canada and the U.S., with the result that relations between the two countries were noticeably strained during oil negotiations and following the quota action.

Assessment—Despite U.S. pressure on the Canadian government to impose export controls, for Canada, it remained a politically unfeasible move. U.S. officials in Canada should have been consulted about the probable impact of a quota decision. Controls would have put pressure on the Canadian government to raise prices in eastern Canada, which in turn, would have strengthened the already strong separatist movement of the French population in Quebec and would have threatened the foundation of the Canadian federation. The State Department apparently did not adequately consider this implication of the quota decision. Any such action would have also compounded a touchy political situation in western Canada where certain groups were upset about a government plan to reduce the level of wheat production there.

¹²George Kennan, *American Diplomacy, 1900-1950*, p. 73.

Style Although the Canadians had been consulted about the possibility of the U.S. imposing formal import quotas on oil shipments to the U.S., they had not agreed to the action nor was there any advanced notice on the exact quota figure. The timing of the announcement was not particularly well-planned. A delegation from the Canadian parliament was on the way to meet with U.S. Senators and Congressmen to discuss the energy issue when the news was announced. When Philip Trezise was asked during the March 10 press conference, what the Canadian reaction had been to the announcement, he replied, "I don't know what they are going to say, because they have not been informed until this morning." This diplomatic style was resented by Canadian officials.

Continental Energy As the U.S. government moved toward integrating the concept of a continental energy policy with our Canadian oil import policy, the Canadian government (responding to domestic pressure) moved to separate the two, preferring to deal no longer with the concept of a common energy policy. In late 1969 and early 1970, the continental energy concept was becoming a particularly sensitive issue in Canadian domestic politics. It was seen by many as further encroachment of U.S. influence on the economy as well as an impingement on Canada's sovereignty. The March, 1970 import action was interpreted by the Canadian press as a move designed to put pressure on Canada to join in a pact which would give U.S. industry access to the broad range of Canadian energy resources, including oil, natural gas, coal, hydroelectric, and nuclear energy sources.

The U.S. action also put certain Canadian government officials in an uncomfortable position. Although the two governments had held several general discussions on the concept of a common energy policy, the Canadian government was ambivalent about the issue in late 1969 and early 1970.

The U.S. government should have better assessed the high level of Canadian nationalism, public interest in the question of Canadian sovereignty in the Arctic and on its waterways, and concern about extensive U.S. ownership in the Canadian economy.

The timing and wording of our announcement solidified these concerns. Canada's Minister of Energy, Mines and Resources, J. J. Greene, although he initially denied that the oil decision was being used to pressure Canada into a long-term energy agreement, was forced to back away from his position when the White House issued a statement inextricably linking oil and energy matters. In a response to the letter from the 25 Senators protesting the Canadian oil action, William E. Timmons, Assistant to the President for Congressional Relations, replied:

"... the national security of the United States requires the conclusion of a comprehensive agreement with Canada with respect to all energy matters, and the imposition of some quantitative limitations on the entry of Canadian petroleum pending the conclusion of such a pact."

This letter was widely circulated in the Canadian press as proof of the bargaining power tactics being used by the U.S. Greene moved away from his earlier endorsement of a common energy policy and became increasingly critical of U.S. actions. In an April 23 speech and news conference in Washington, D.C., Greene called the U.S. imposition of quotas a mistake. One month later, in an address to the Midyear Meeting of the IPAA in Denver, Greene spoke about the lack of U.S. assessment of the effect its quota action would have on Canada. He further indicated that plans for joint talks between the U.S. and Canada were stymied by the U.S. action. The "nudge" was not working.

Effect on Canada's Energy Policies—The inability of the U.S. and Canada to agree on oil imports, the rising world price of oil, and the increasing power of OPEC oil producing nations in setting prices and controlling supply increased the importance of energy-related issues within the Canadian government. In early 1973, Canada imposed import limits on shipments of its own oil because of rising domestic demand. In September 1973, the government took a series of oil related actions in response to the above-mentioned conditions. These included setting an export tax on oil, imposing a price freeze on petroleum producers, and deciding to build an east-west Canadian pipeline to Montreal. In December, Trudeau outlined a new energy policy for Canada. The proposed goal of this new policy was the creation of a unified, self-sufficient Canadian oil market by 1980, and the abandonment of the Ottawa Valley dividing line between domestic and imported oil which had been in existence for 12 years. These events clearly suggest that Canada had embarked on an independent course of oil policy action. The events of March 1970 and the continuing inability of the U.S. and Canada to reach an agreement on oil and related energy matters served as a strong impetus for movement in this direction. As one Canadian embassy official suggested, the March 1970 decision forced Canada to look beyond its own borders in evaluating its oil policies and to take a world, rather than bilateral, view of oil relations.

Looking back on the events of late 1969 and early 1970, mutual misperceptions by the U.S. and Canada prevented an important oil agreement from being reached and precipitated growing tensions between the two countries. Mutually inadequate assessments of each other's position characterized U.S.-Canadian dealings. The U.S. considered Canada unreasonable in not agreeing to specific

limitations on oil; Canada felt the U.S. was over-reacting to increasing oil imports.

B. ASSESSMENT BASED ON PERCEPTION OF DECISION PARTICIPANTS

All participants who originally supported the decision, including the White House, the Office of Emergency Preparedness, the Departments of State, Commerce, Treasury, and Interior, felt that, under the circumstances, the decision to impose formal oil import quotas on Canadian oil was correct. In spite of the repercussions on Canadian-U.S. relations, domestic U.S. energy shortages and subsequent world oil developments, only two actors close to the decision felt that, with hindsight, the U.S. should have encouraged more rather than fewer Canadian oil imports. Referring back to the institutional objectives advanced by the decision actors, the following chart indicates whether the Canadian decision led to achievement of those objectives.

IV. ASSESSMENT OF PARTICIPATING ORGANIZATIONS

The decision to impose formal quotas on imports of Canadian oil was a joint State Department and White House decision. The Interior Department played a technical backup role in the deliberations, and the Office of Emergency Preparedness and the Oil Policy Committee played legitimizing roles. The organizational effectiveness of each of the major actors is evaluated as follows:

THE STATE DEPARTMENT

State was the major participating agency in the policy initiation, formulation and action stages of the decision process. Under Philip Trezise's direction, the problem was formulated in operational terms, alternatives were prepared and options selected. Trezise took the initiative in consulting with the White House and received policy direction from Peter Flanigan. There were both pros and cons in this lead agency approach. On the positive side: (1) State was the proper agency to carry out negotiations with a foreign country and, being the lead agency in the Canadian negotiations, coordinated with other executive departments to ensure that the U.S. Government spoke with one voice and, (2) State was best equipped to deal with the foreign relations implications of this issue. On the negative side: (1) State's feeling that it had been out bargained by the Canadians foreclosed consideration of less restrictive options than the one finally selected, (2) State had neither accurate sources of oil information nor sufficient internal staff expertise in

CHART I—OUTCOME OF CANADIAN DECISIONS

<i>Objective</i>	<i>Achieved</i>
• Secure a U.S.—Canadian common energy agreement	No
• Ensure U.S. security of supply	No agreement was ever reached
• Maintain close U.S.-Venezuelan oil ties	Yes
• Improve management of MOIP	No
• Achieve internal equity of U.S. domestic industry interests	Yes
• Prevent Canadian price advantage at expense of U.S. producers	Short run yes—no longer an issue with foreign price increase
• Protect domestic industry	Yes
• Encourage domestic production	No (at capacity)
• Protect consumer interests	No

On balance, the decision action met institutional objectives in approximately half the cases; the remaining objectives were either not met or subsequent world oil developments made them inoperative. In addition to the institutional objectives listed above, the President set out a number of national objectives or expectations when he announced the Canadian quota action. The following list highlights the President's predicted outcomes of the decision with an evaluation of whether these assessments proved accurate.

<i>Assessment</i>	<i>Achieved</i>
• Controls to be temporary	No—the controls remained in existence for three years
• Controls to be interim, pending transition to alternative arrangements	No—alternative arrangements were not worked out until the MOIP was ended in 1973
• Import level would be adequate to meet the needs of U.S. consumers and refiners	No—the level never proved adequate and was continually raised

None of the major assessments discussed in the White House press release proved to be true, although White House officials involved in the decision continue to believe in its correctness.

oil matters, (3) the Canadian issue was treated from a limited political viewpoint without considering broader worldwide and domestic economic effects, (4) State's thinking was dominated by the obliga-

tion to preserve relations with Venezuela, (5) State's manner of communicating the decision to the Ottawa government caused negative reactions in Canada, (6) State officials did not correctly assess the impact of the decision on Canadian-U.S. energy relations and, (7) not all appropriate State actors were involved to the extent they should have been, specifically the embassy in Canada and the office of Canadian affairs.

Other decision actors deferred to State leadership because they felt State was the best informed agency on the issue and the most knowledgeable on any likely foreign repercussions that might result from a quota decision.

THE WHITE HOUSE

The White House, in close conjunction with the Assistant Secretary of State for Economic Affairs, played a controlling role in this decision. The organizational handling of this issue within the White House was effectively structured to permit continuing communication between the operating departments and the Executive branch. Peter Flanigan served as the final conduit to the President, creating a communication channel that was open, direct, and limited. Flanigan would have been responsible for preparing the final cover memo to the President listing the pros and cons of the decision, various agency positions, and final recommendation. Although Flanigan does not remember the details of this decision memo, he is fairly certain that, as part of standard operating procedures, one was prepared.

The President, in assuming responsibility for making the final policy choice and taking the decision action, properly served in a coordinating role. With information and recommendations from his staff advisor and the OPC, he took responsibility for the final balancing of domestic and international political, economic, and security interests. The main organizational drawback attributable to the White House was its lack of clear and coherent policy direction to the operating departments and to the interagency OPC. Another criticism of the White House role as expressed by persons close to the decision was that it was weighted too heavily in favor of domestic political interests. Without access to White House records or the President, this allegation is difficult to prove. It is clear that Congressional pressures were placed on the White House; how deeply these pressures affected the decision is undeterminable. A final drawback in the White House involvement was that neither the President nor Peter Flanigan insisted that the President be offered real policy options rather than being limited

to following one recommended action to impose controls or taking no action.

THE INTERIOR DEPARTMENT

Interior was appropriately involved in all stages of the decision process. The Department's institutional objectives, which generally supported the domestic oil industry's interests, somewhat limited Interior's role in providing a full range of decision options. The perceptions of other actors as to Interior's role in this issue further limited Interior's effectiveness. Other departments tended to regard Interior as too closely representing the interests of the petroleum industry and unable to assume the leadership role because it was unwilling to take action. With State playing the major policy role, the other actors agreed that Interior was the proper organization to carry out the technical implementation flowing from the decision. The supporting role played by Interior appears to be the most desirable one. Domestic considerations as reflected by Interior were important; however, they should not have been primary. The Canadian oil decision was foremost a foreign economic one and as such organizational responsibility should have rested where it did with State and the White House.

THE OFFICE OF EMERGENCY PREPAREDNESS

The President had placed responsibility for policy direction, coordination, and surveillance of the oil import program with the Director of the OEP less than a month before the Canadian oil decision was announced. No one was more surprised and less prepared to handle these responsibilities than General Lincoln, director of that office. The placement of oil policy responsibilities in this office can be questioned on grounds of organizational logic.

OEP had no qualified oil experts on its staff, and its leadership was not considered particularly involved or interested in energy matters. General Lincoln did not look for an oil expert in assigning the chairmanship of the Oil Policy Working Group to William Truppmeyer, his Assistant Director at OEP. As Truppmeyer later explained, "the reason that General Lincoln asked me to assume that post was not because I knew anything about oil—which I didn't. I'd had no exposure, for all practical purposes. I think I was about as good as anybody in the federal government at administering regulations."¹³

The lack of expertise by the Director and staff of OEP necessarily limited substantive participation

from this office in the Canadian oil decision. General Lincoln without having been involved in the decision-making process until late February, 1970, nevertheless carried the responsibility for explaining and justifying the decision.

The impact of this decision on OEP was significant because it was the organization's first oil import policy issue. Frustrated by their limited policy input, OEP officials realized that they would have to build an internal staff capability to deal with oil and energy matters.

THE OIL POLICY COMMITTEE

The Canadian oil decision is not a representative case for an organizational analysis of an interagency committee. The OPC entered the Canadian oil decision process when options and alternatives were essentially foreclosed. Committee members were asked to concur with, rather than debate, the decision. OPC members, with the exception of State and Interior, did not feel they had any real voice in the Canadian oil decision. After the decision was made, however, the Committee did participate in the formulation of the implementation plan.

It is not clear that the imposed sense of urgency and crisis atmosphere in the OPC was entirely justified. It may have been simply a State Department technique to push for decision action on a problem that had remained unresolved for several years.

The OPC also suffered from several institutional liabilities. The President never issued an executive order outlining the purposes and responsibilities of the OPC as he indicated he would when he established the Committee. The Committee members had neither institutional legitimacy nor policy guidance. In addition, the OPC, less than a week old when the Canadian oil issue was presented, had not yet had time to develop operating policies and procedures. Consequently, policy guidance was assumed by the strongest actor at the moment, the State Department.

CONGRESS

Congressional input into this decision was neither well informed, well organized, nor coordinated. Several interested senators and representatives, upon hearing of the impending decision, individually contacted their close sources in the administration at either the White House, State, Interior, or OEP. Select regional oil consuming and producing interests were communicated to the decision-makers through their congressional representatives.

This Canadian decision process demonstrated the lack of any channels or mechanism for formal two-way communication between the Executive

¹³U.S. Congress, Permanent Subcommittee on Investigations, Committee on Gov't Operations, U.S. Senate, Hearings, November 13, December 13, 1973, p. 67.

branch and the Congress on oil related matters. The large number of Congressional committees that have dealt with the oil import issue illustrates the absence of a central focal point in the Congressional committee system for dealing with oil and energy matters. Consequently, in the Canadian case, the Executive branch was able to deal on an individual political basis with Congressional oil concerns and thus gain more leeway to control decisions.

2. The Decision to Suspend the Mandatory Oil Import Program

DECISION ABSTRACT

On April 18, 1973, in a long-awaited energy policy message, President Nixon announced the suspension of all oil import quotas, and replaced them with a new system of license fees.

Since 1959, formal oil import quotas had been imposed under the auspices of the Mandatory Oil Import Program (MOIP). Throughout its 14-year history, the program caused continuous controversy, particularly between Southwest oil producers favoring controls as a way to protect their markets, and Northeast consumers who wanted more low-priced foreign oil.

From 1969 on, the basic issue in U.S. oil import policy was whether the character and degree of import restrictions under the MOIP was judged effective in meeting the program's stated national security objectives. The program had come under mounting political pressure because of the numerous exceptions and special deals granted throughout its life, many of which defeated the original objectives of the program. The program became ineffective when domestic production peaked in 1972, ending the effectiveness of the demand rationing balancing wheel which had been a key element of the MOIP.

In his energy message, President Nixon said the import program had outlived its usefulness in limiting foreign oil imports. The U.S. was not producing as much oil as it was using, and had to import even larger quantities to meet its needs.

The decision to replace the MOIP with a license fee system was reached by William Simon, Deputy Secretary of the Treasury, through his authority as Chairman of the Interagency Oil Policy Committee. Policy development was centered in the Treasury Department, Interior Department and White House, with limited input from the Departments of State and Commerce. The President approved the final proposal with the strong recommendation of George Shultz, Secretary of the Treasury and White House Advisor.

The new license fee system was not a dramatic

change from oil import policy of recent years. During the last three years of the quota system, administrative adjustments to the original MOIP meant that limits on imports had essentially been abandoned. In addition, the new fee system would be gradually phased-in over a seven-year period as follows: In the first year existing quotas could be imported duty-free. These fee exempt quotas would be phased out over seven years, starting with a 10% cut in the second year. The level of imports would be unrestricted, but those in excess of the allowable quota for a given year would be subject to fee.

The announcement was viewed as inevitable and received little attention internationally. Although the policy change may have resulted in some additional incentive for the Organization of Petroleum Exporting Countries (OPEC), to raise their prices even higher, it had little connection with international political developments that later resulted in the Arab oil embargo.

The U.S. petroleum industry was optimistic that the new system would increase oil supplies and provide incentives for further domestic production and refinery capacity expansion. Neither objective was realized. Adequate supplies of foreign crude did not exist in the world market over the short run. Environmental restrictions and domestic price controls halted much of the planned expansion in domestic production and refinery capacity.

The decision itself was considered in a domestic energy policy framework, rather than an international economic policy or trade policy framework. The decision process highlighted the difficulty in reaching consensus on an energy policy issue which cuts across many organizational lines and involves a variety of interdepartmental and internal organizations, each with its own institutional agendas and interests.

V. THE DECISION AND ITS BACKGROUND

A. THE DECISION ENVIRONMENT

1. Economic Environment

Throughout its existence, the MOIP had been amended with a series of special arrangements and exceptions, largely in response to political demands, that imposed high costs and inefficiencies on consumers and economy. These arrangements and various economic events beyond MOIP's control rendered the program ineffective and eventually led to severe energy shortages in the winter of 1972-73.

RAPIDLY DECLINING DOMESTIC PRODUCTION

The first warnings of domestic supply problems were voiced in February, 1970, by the Texas Independent Producers and Royalty Owners Association (TIPRO) which felt the industry had grossly overestimated the practical potential of domestic oil fields.¹⁴ With surplus domestic capacity nearing zero, concern was expressed that state allocations could no longer serve as a balancing mechanism, and that the level of imports would have to increase to meet domestic demand at current price levels.

REFINERIES APPROACHING CAPACITY

By March 1971, the U.S. was on the brink of a refinery shortage.¹⁵ In 1971, refinery capacity increased 3%, only two-thirds of the amount needed to meet increasing demand. Starts were down for 1972, no new starts were planned for 1973, and only a small number were planned for 1974. At least nine proposed refineries on the Eastern seaboard had been scuttled by opposition from local environmental groups.¹⁶ Those refineries would have increased capacity by 50% on the east coast, which at that time refined only about one-fourth of the product it needed. A major new refinery had not been built on the east coast since 1959, and eight old ones had closed in the previous decade.

Special provisions in the MOIP had encouraged the exportation of both production and refinery capacity to countries providing substantial cost advantages to the oil companies, rather than encouraging further domestic production.

GROWTH IN DEMAND

Demand for energy in the U.S. expanded almost exponentially from 1970. Of the many supply/demand projections none came close to estimating what the impact would be. Environmental restrictions and automobile pollution devices received much of the blame for increasing energy consumption.

Prior to 1972, a substantial increase in demand could always be matched within one month by increasing domestic supply in Texas and Louisiana. Now, with no excess productive capacity, the only short run means for increasing supply was to increase the import quotas to allow more foreign crude oil and products into the U.S.

¹⁴U.S. Congress, Permanent Subcommittee on Investigations, Committee on Government Operations, U.S. Senate, *Hearings: Staff Study of the Oversight and Efficiency of Executive Agencies with Respect to the Petroleum Industry*, November 8, 1973, p. 5.

¹⁵*Oil and Gas Journal*, March 22, 1971.

¹⁶*Wall Street Journal*, August 22, 1972, p. 1.

DOMESTIC PRICE CONTROLS

The 1971 Wage-Price Freeze and later economic controls created further distortions in energy supply/demand balance. In the summer of 1971, fuel oil prices were frozen at their lowest seasonal level and gasoline prices were frozen at their highest seasonal levels. Consequently, refineries were gearing their production mix toward the more profitable gasoline. As winter approached, fuel oil shortages became critical.

The oil companies could have requested a price exception, but public attention directed toward the oil companies resulted in a Price Commission determined not to allow such an increase, threatening a detailed cost accounting of oil company books, and public hearings had the oil companies requested an exception.¹⁷

INTERNATIONAL PRICING

Through different actions, first by Libya in 1970, and later by the OPEC cartel, taxes and government fees on crude oil and oil products were sharply increased. Continued nationalization of U.S. oil company foreign production subsidiaries was becoming more imminent.

The resulting impact was a two-tier price system. By January 1973, new foreign crude prices had exceeded domestic prices, which were depressed by price controls. The fact that domestic prices were no longer supported by the MOIP at a level above foreign crude prices eliminated any implicit subsidy gained by domestic refiners through import controls, creating severe economic pressures, particularly on small refiners.

2. Political Environment

As in the Canadian case, the oil industry's powerful lobby played a significant role in the decision to suspend the MOIP at the Congressional, White House, and Department of Interior levels. Although the industry was formally represented by the American Petroleum Institute (API), the major lobbying effort was maintained by individual companies representing various segments of the industry.

The major integrated oil companies were known to consult by telephone directly with President Nixon or his counselor, Peter Flanigan. The major companies had always favored the quota system for its inherent price supports, and had fought fiercely for its continuation even through the major reform move led by the Cabinet Task Force in 1970. With rising foreign prices, the major companies' priorities moved from insuring price supports to insuring a continuing source of supply to facilitate better investment planning. In 1973, the major companies

¹⁷U.S. Senate, *Hearings* p. 75.

tacitly approved a tariff plan, finally opening the way to its passage. Their approval stemmed both from increasing domestic supply shortages under controlled prices and a growing realization of adverse public pressure toward the MOIP, a program considered a federal government giveaway to the oil industry.

The independent segment of the industry was much more vocal in its arguments than the major oil companies. Independent refiners, the major recipient of an implicit subsidy through quotas, intensified pressure on Congress for economic relief. As foreign crude oil prices continued to increase and approached the level of high domestic prices, the subsidy, a result of the price differential, diminished. Independent marketers received the most public attention and maintained the most intense campaigns on Capitol Hill. Marketers were concerned about rising costs, but more importantly, complained about severe cut-backs by their traditional suppliers, major oil companies, who were themselves facing shortages.

CONGRESS

Congressional debate on the oil import question centered around two regional and economic factions. (1) The New England Caucus represented that region of the country with the highest fuel costs and the greatest chance for shortage if one should come. The caucus was well organized with its own staff and economist. Senators Edward M. Kennedy and Thomas J. McIntyre were its principal spokesmen. The Caucus' main concern was the high price of heating oil, supported at that level by the MOIP. A larger concern in 1973 was the projected shortage of heating oil, and the Caucus continued to support the abolition of all import quotas. (2) Southern oil state senators represented the interests of those major oil companies in their areas who supported continuation of the MOIP. Many of these senators were chairmen of key Congressional Committees and some Republican members communicated directly with the White House to insure that no major changes were made in the overall program before their anticipated reelection in 1970. These individuals had previously lobbied the White House to control the flow of Canadian oil in the late 1960s.

3. Organizational Environment (1970-72)

Prior to 1970, most oil import policy decisions had been made in the Department of the Interior, with the White House and the State Department

participating. Early in 1970, based on recommendations from the Cabinet-level Oil Import Task Force, President Nixon authorized the following new structure to consolidate oil policy responsibility. In summary:

1. An interagency Oil Policy Committee (OPC) would recommend to the President any policy changes in the MOIP.

2. The Office of Emergency Preparedness (OEP) would prepare all analysis for the OPC.

3. The Oil Import Administration (OIA), Department of the Interior, would continue its responsibility for policy implementation.

This management structure, as in the 1970 Canadian oil decision, did not fulfill its intended policy role from 1970 through 1972.

OIL POLICY COMMITTEE (OPC)

The OPC, under the chairmanship of OEP Director George Lincoln, served little function beyond providing a forum for opinions of various agencies on the MOIP. Through Lincoln's three-year tenure as Chairman, the committee did not carry out its policy responsibilities. The Committee was never able to focus on the underlying problems in the MOIP, nor was it able to understand the impending supply problems that accentuated the possibility of an energy crisis without some major change in policy.

OFFICE EMERGENCY PREPAREDNESS (OEP)

OEP staff had no background in energy policy at the time the Office was given policy analysis responsibility. Initially, the OEP relied heavily on Interior's Oil Import Administration for analytical assistance. Later, General Lincoln developed a staff of approximately 30 professionals, many experienced in energy, and organized them into a Division of Oil and Energy, a rivalry developed between the OEP and the Interior Department. Interior staff became increasingly demoralized over the loss of policy responsibilities.

INTERIOR DEPARTMENT

Interior's major designated function was the implementation of the MOIP. On the policy level, Hollis Dole, Assistant Secretary for Mineral Resources, continued to play an active role as chief confidante to General Lincoln by encouraging the continuation of the MOIP, in the name of national security, through economic support of the domestic oil industry.

WHITE HOUSE

The President made all final decisions on changes in oil import policy, with his assistant Peter Flanigan maintaining primary responsibility for all energy policy through 1972. Flanigan maintained a low profile with the OPC but was the major White House information source for the committee. The White House position favored retention of the MOIP until late 1972 when shortages became critical and industry support for the program waned.

ORGANIZATIONAL ENVIRONMENT 1973 (See Table II.)

Following his reelection in 1972, President Nixon, with the help of John Ehrlichman from the White House and Roy Ash from the Office of Management and Budget (OMB), embarked on a massive reorganization of the Executive branch and the White House staff. The result was a major realignment of organizational responsibilities for energy policy. Early in December 1972, John Ehrlichman, chief domestic policy adviser to the President, stated that energy would be the major issue in 1973 and that policy would be forthcoming from his office. As a result of Ehrlichman's assumption of responsibility for energy matters, Peter Flanigan's office was moved from the White House to the Old Executive Office Building where he would act as Executive Director of the Council on International Economic Policy (CIEP) and his only contact with energy would be as it related to international trade.

On February 23, 1973, President Nixon announced that energy policy would be reviewed by a trio consisting of John Ehrlichman, George Shultz, Economic Adviser to the President and Secretary of the Treasury, and Henry Kissinger, National Security Adviser to the President.

John Ehrlichman was to be the group's lead actor, but his increasing personal involvement in the Watergate affair forced the President to assign George Shultz the lead role in early April 1973. Although acting as chief Administration Energy Spokesman and as the President's chief adviser, Shultz never became involved in the day-to-day development of import policy. Henry Kissinger took no interest in energy policy until June 1973, and waived approval of the new import policy in April 1973 for lack of time to analyze the issue.

At the same time, President Nixon announced the appointment of Charles J. DiBona to serve as chief of the new White House energy policy office and as an assistant to Ehrlichman. DiBona had no previous experience with energy, but Ehrlichman's

intent was to avoid possible charges of conflict of interest with the oil industry. It was almost impossible to find staff qualified in energy policy without some tie with the industry. DiBona's chief White House responsibility in early 1973 was to develop a long-awaited Presidential energy message for delivery in April 1973. Although changes in the oil import program were to be part of the message, DiBona had little direct participation in the original decision to suspend the MOIP. DiBona favored the complete removal of all import quotas, without the addition of a tariff system, to insure maximum energy supplies and to avoid any further possibility of domestic shortages.

TREASURY DEPARTMENT

As part of the Presidential reorganization, the President announced in December, 1972 that the OEP was abolished effective June 30, 1973. General Lincoln retired from his position as Director in January 1973, leaving the Chairmanship of the Oil Policy Committee vacant. On February 7, 1973, President Nixon, based on the recommendation of Treasury Secretary Schultz, announced the appointment of William Simon, the new Treasury Deputy Secretary, as Chairman of the Oil Policy Committee. With that position, Simon received all policy responsibilities for the Oil Import Program.

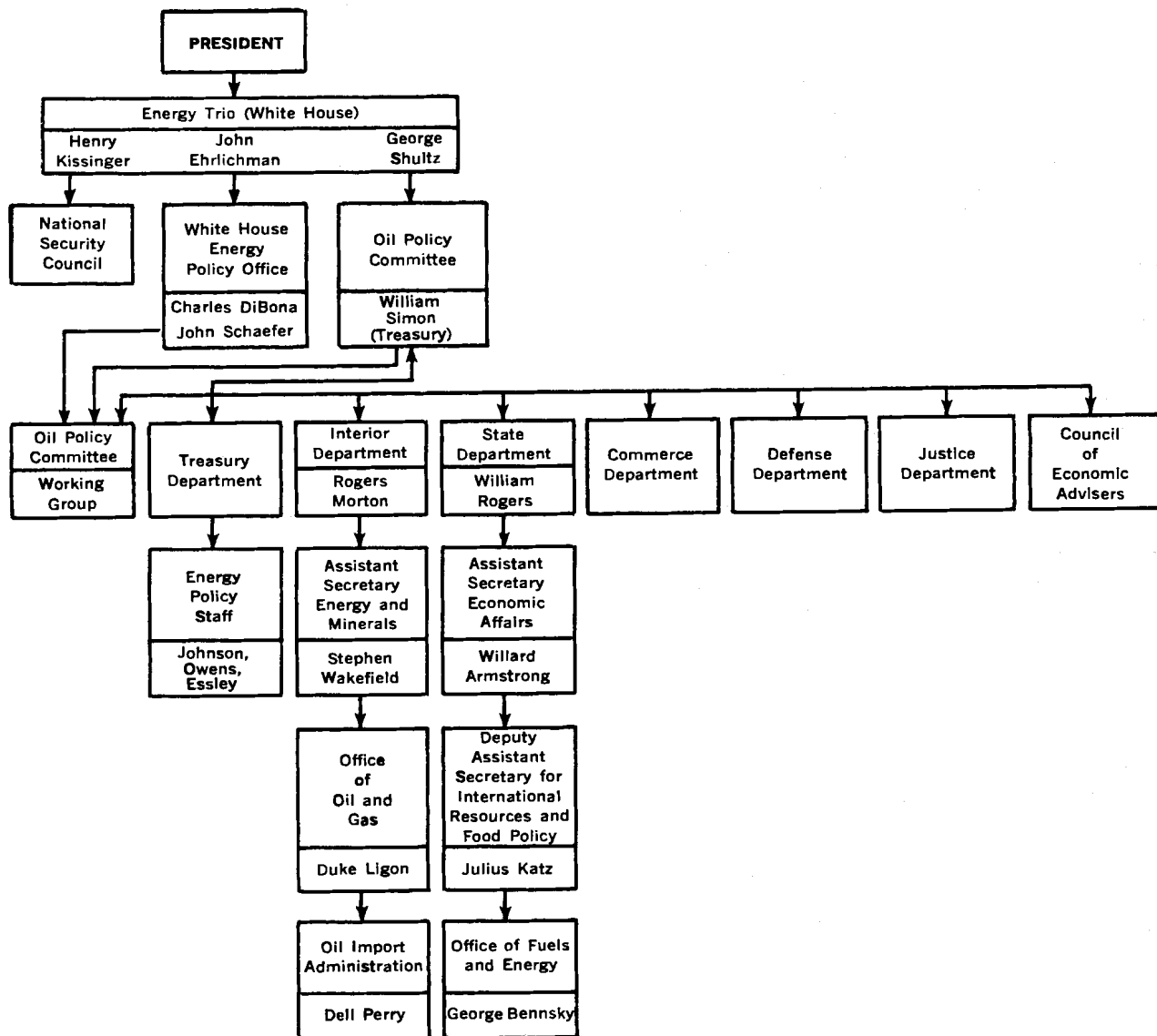
Simon brought together a small energy policy staff consisting of William Johnson, former energy expert for the Council of Economic Advisers, Charles Owens, a private consultant, at that time with the Cost of Living Council, and five members of the OEP energy staff, including Philip Essley.

William Simon had received a clear mandate from the White House to develop a new import policy as a portion of the April Presidential energy message. With no background in energy, Simon relied heavily in his first days on James Akins, White House staff member and former Director of the State Department Office of Fuels and Energy, and M.A. "Duke" Ligon, Treasury Department energy adviser under Shultz. Both convinced Simon of the inequities in the program and a need to move closer to a free-market system.

INTERIOR DEPARTMENT

Following William Simon's recommendation, Duke Ligon was appointed Director of the Interior Department Office of Oil and Gas (OOG). With the abolition of the OEP, energy policy and staff was to be divided between the Treasury Department and Interior Department OOG. The Oil Import Administration, now part of the Office of Oil and Gas,

TABLE II.—OIL IMPORT POLICY—FORMAL ORGANIZATION—FEBRUARY 1973



retained responsibility for the implementation of the oil import program. Simon viewed Ligon's move to OOG as a chance to informally bridge the gap between the two agencies critical to the development of energy policy.

KITCHEN CABINET

William Simon's Kitchen Cabinet, a small group of his closest advisers, took the lead role in the development of a new oil import program. Members included William Johnson, Treasury energy staff; Jack Bennett, Treasury Deputy Assistant Secretary; Gerald Parsky, a Simon aide; Robert Nipp, Treasury Public Relations Director; Duke Ligon, Interior; John Schaefer, the White House; and Simon himself. Often included were

Charles Owens and Phillip Essley, key Simon staff members.

OIL POLICY COMMITTEE

Simon called only two meetings of the OPC in his year-long tenure as Chairman. Simon disliked the committee's large size and lack of direction and expertise. The complete minutes of his first meeting were published the following day in *Oil Daily*, an industry publication. This event upset Simon, who felt it an inappropriate way to convey the details of policy development.

Simon kept Committee members informed on an individual basis by sending them evolving drafts of new policy options devised by the Kitchen Cabinet for their comment.

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Although not actively involved in policy development, two agencies represented on the OPC, the Departments of State and Commerce, informally voiced strong opinion on changes in the oil import program. Other agencies were predominantly silent.

STATE DEPARTMENT

Key actors in the State Department in 1973 were Julius Katz, Deputy Assistant Secretary for International Resources and Food Policy; and George Bennis, newly appointed Director of the Office of Fuels and Energy. In 1973, State favored a policy that would encourage domestic production in order to decrease our dependence on foreign oil. With the increasing price of foreign crude oil, State did not believe a license fee or tariff system would cause any adverse reaction internationally.

State was vitally concerned about the proposed removal of a western hemisphere preference directed at Canada and Venezuela. State favored the removal of the following two reasons, in order of priority: (1) It wanted to convince the increasingly important Middle Eastern oil suppliers that the State Department was interested in multilateral agreements with all producers, rather than bilateral agreements with western hemisphere neighbors. (2) State saw no point for the exception as Canada and Venezuela had both been decreasing exports to the U.S. as their own domestic supply pressure increased. Based on a request from Julius Katz, William Simon delegated the decision on the western hemisphere policy portion of the new oil import program to the State Department.

COMMERCE DEPARTMENT

The key actors in Commerce were Peter Peterson, Secretary of Commerce, and Seth Bodner, Deputy Assistant Secretary for Resources and Trade Assistance. Although not as active as their predecessors, Maurice Stans and Stanley Nehmer, Peterson and more prominently, Bodner, continued to support retention of the quota system, liberalizing it where necessary to insure adequate domestic supply.

B. DECISION CHRONOLOGY (1968-1973)

The following sections highlight actions and/or events which represented interim outcomes where either new alternatives were considered or certain decision paths were closed. The process has been divided into four stages: (1) Government Recognition/Definition of the Problem, (2) Government Decisions, (3) Policy Action, and (4) Policy Implementation.

1. Government Recognition and Definition of the Problem, 1968-September 1972 Congressional Attention

A critical turning point in the fate of the MOIP was the proposed Machiasport exception in 1968. Occidental Petroleum Corporation applied to the Commerce Department for the establishment of a "free zone" in Machiasport, Maine, into which oil could be imported, refined, and then "exported" into the United States.¹⁸ The application touched off the first real confrontation between the major oil companies, who fought it because the Commerce Department would not also allow them such a benefit, and the New England Caucus, which was happy for any opportunity to increase supplies at lower prices through more imports. A lengthy debate by these two groups set off unwelcome attention and opposition to the quota system in general from Congress.

EXECUTIVE BRANCH ATTENTION—THE CABINET TASK FORCE ON OIL IMPORT CONTROL

Following a lengthy staff study and heated debate, a majority of Task Force members recommended the enactment of a tariff system to replace the MOIP which purportedly no longer bore any relation to its original national security objectives. The Departments of Interior, Commerce, and the Federal Power Commission submitted a minority report recommending continuation of the existing quota system to support the domestic industry.¹⁹ By 1973, this minority position would be eroded.

PRESIDENTIAL REJECTION OF TARIFF PLAN

On August 17, 1970, General George Lincoln, Chairman of the Oil Policy Committee, announced the President had chosen not to substantially change the existing oil import program. He was influenced by "considerations of an interrupted flow of oil to Europe, uncertainty over the availability of Alaskan oil, the effects of various environmental programs, increased demand for petroleum products and decreased domestic supplies".²⁰ Observers at the time indicated that a new import program was shelved partially due to fear of jeopardizing Republican chances for victories in Senate races in Texas and New Mexico in November 1970.²¹

¹⁸Thomas B. Stoel Jr., *Oil Quotas Again*, 1973, p. 5.

¹⁹Cabinet Task Force on Oil Import Control, *The Oil Import Question*, February 1970.

²⁰U.S. Senate, *Hearings*, p. 6.

²¹Stoel, op. cit., p. 7.

THE END OF THE BALANCING MECHANISM

December 1970 marked the beginning of General Lincoln's attempts to increase the level of imports to maintain supply/demand balance without changing the domestic price. Within the next three years, 10 separate policy actions would raise the level of imports well beyond the mandated 12.2% of oil used in the U.S. These changes, coupled with the April 1972 end to domestic prorationing, marked the end of the supply/demand balancing mechanism that was key to the MOIP's effectiveness. The only alternative the OPC considered was to vary the level of imports to meet domestic demand for oil.

The OPC found that regulating imports raised new and critical problems. First, demand predictions were totally inadequate and second, changing the level of allowable imports resulted in a three-to-four month delay before imported oil could reach the consumer. If demand projections were too conservative, shortages could occur in just the lag time needed to increase imports.

THE OPC CONSIDERS NEW ALTERNATIVES

Faced with potential supply shortages, the OPC met on April 25, 1972, to consider policy changes for the MOIP. Two alternatives considered were (1) a significant overallocation of import tickets to force the return of market demand prorationing and (2) a change in the nature of the program. In discussing the first, the group expressed fear that the import ticket value was so low already (foreign crude prices had risen almost to the level of domestic prices) that overallocating import tickets would probably reduce the value close to zero. This would have produced an intolerable condition for independents who depended on that indirect subsidy to continue their operations. Peter Flanigan led much of the OPC in eliminating this proposal from further consideration. The committee could reach no consensus on any other program change and no other action was taken.

PUBLIC ANNOUNCEMENT OF PROGRAM FAILURE

On September 18, 1972, President Nixon, based on OPC recommendations, authorized a plan to increase the crude oil supply by allowing importers to borrow up to 10% of their 1973 quota during the remainder of 1972.²² This move by the OPC admitted its failure in controlling the balance of supply and demand through import policy. The committee

²²Weekly Compilation of Presidential Documents, Proclamation 4156, September 18, 1972.

finally agreed that some drastic action would have to be taken before the first of the year.

WINTER FUEL OIL SHORTAGES RESULT IN DECISION TO END MOIP

OEP recommended three major policy changes effective for the first four months of 1973 which were implemented by Presidential Proclamation on December 18, 1972. These changes were (1) fuel oil no longer had to be made strictly from crude oil from Western Hemisphere wells, (2) importers were prohibited from trading foreign crude oil to domestic refiners in return for fuel oil, and (3) increased shipments of no. 2 fuel oil from Puerto Rico were permitted. In all, this was a move of desperation to avert fuel oil shortages, for any new supplies of fuel oil would only be in exchange for equal quantities of gasoline, with the potential for an even greater gasoline shortage in the coming summer. As a short term response, it kept within manageable proportions what could have been a severe shortage.

General Lincoln directed the OPC to begin to consider major changes in import policy. The Committee considered in depth the following recommendations:

1. Shifting to an auction system for distributing oil import licenses as opposed to the present system which is based on existing refinery and petro-chemical plant capacity.
2. Lifting all controls on imports of home heating oil for a four month period because of the current fuel shortage.
3. Raising the 1973 oil import levels by about 65% more than the 1972 levels.

On January 17, 1973, General Lincoln held a press conference to announce both a 50% quota increase and a suspension of all quotas for home heating oil through April 30, 1973.²³ The key point in his speech, however, was Lincoln's public announcement that the Oil Import Program was in its last days and some major change would be made before the spring was out.

2. Government Decision, February, 1973

OPTIONS CONSIDERED

1. *Auction*—The idea of an auction system was traced to 1968 discussions where the first pressure for change in the MOIP had occurred. The OPC considered it for the first time in summer, 1972. An auction system retained import quotas, but quota tickets would be auctioned rather than

²³Weekly Compilation of Presidential Documents, Proclamation 4178, January 17, 1973.

freely allocated. An auction system had the following advantages: (1) it would flexibly respond to market forces and (2) it would shift the subsidy from oil companies to the government. An auction system had the following disadvantages: (1) it would be difficult to administer; (2) if the price of foreign crude oil exceeded the price of domestic crude oil, a quota ticket would no longer have any value for auction; (3) it would introduce much uncertainty into corporate planning; and (4) it would discriminate against smaller refiners because they lacked the financial resources of the major oil companies.

2. *Tariff*—A tariff for oil imports had first been proposed in 1970 by the Cabinet level Task Force and created such heated political debate that the Treasury Department staff only very cautiously mentioned it as a possible alternative in January, 1973. A tariff had the following advantages: (1) it would be easy to administer, and (2) it could remain fixed as long as foreign prices exceeded domestic prices, thereby increasing industry confidence. A tariff had the following disadvantages: (1) Congress retained authority for assessing tariffs and might fight this proposal and (2) it would be an inflexible economic device, a problem if domestic prices should again exceed foreign prices.

3. *Continuation of MOIP*—This option was still considered as late as February 1973. A continuation of the MOIP had the advantage of assuring foreign governments that we were not overly dependent on imports. A continuation of the MOIP had the following disadvantages: (1) the program was no longer meeting its original objectives; (2) it was difficult to administer without a balancing mechanism; and (3) it had lost the confidence of the industry.

SIMON'S DECISION

William Simon called staff members William Johnson and Charles Owens together Monday morning February 19, to announce he had considered the different alternatives to the MOIP, discussed them with George Shultz, and decided to proceed with the suspension of the MOIP for one year, replacing the program with some form of variable tariff system on a trial basis. He asked both Johnson and Owens to prepare option papers on a tariff plan to serve as building blocks for further policy action.

3. Policy Action, April, 1973

Once William Simon determined the basic components of the new import program, the Kitchen

Cabinet spent six-to-eight weeks developing a detailed plan, deliberating point-by-point the complex issues involved. Key issues before the group were as follows:

1. *Provision for Independent Oil Companies*—A tariff plan would not protect the independent segment of the oil industry as the quota system had and some members of the Kitchen Cabinet feared Congressional intervention unless some provision for independents was included. A group of Cabinet members fought for a clause to force major oil companies to swap with independents, and then receive fee exemptions for the quantity swapped. The plan was not approved, partially due to intervention from Charles DiBona at the White House.

2. *High Sulfur Oil Control*—For at least a year, EPA had tried to moderate the environmental impact proposals by supporting a restrictive tariff on high sulfur crude oil imports to encourage the importation of low sulfur oil. William Johnson, in particular, felt this move would not only have an inflationary impact on the U.S., but would also create disincentives to expanding refinery capacity. As shortages created added pressures for more imports, EPA never pressed the issue very hard, being doubtful the tariff would ever be incorporated into the plan.

3. *Program Name*—Charles DiBona (White House) voiced his concern to William Simon about the name for the new program. Simon agreed to name his plan a license fee program because levying taxes and duties was the constitutional prerogative of Congress. He also wanted to insure the program would remain under the President's authority, for more flexibility. DiBona expressed a fear that Congress might also consider a license fee its prerogative under Cargo Preference Legislation. Despite strong legal arguments on both sides, the Kitchen Cabinet chose the name "license fee". Simon cleared the use of that name with key Congressmen, using increased flexibility as an argument for retaining control of the program in the White House.

4. *Level of Fee*—Philip Essley (Treasury) and James Akin (White House) used current and projected foreign crude oil prices and tanker rates to prepare summary calculations of a possible range for fees on both crude oil and oil products. Their results were as follows:

	Low	High	(fee/barrel)
crude oil	0¢	42¢	
oil product	42¢	48¢	

Although the Kitchen Cabinet approved the higher fees, Charles DiBona and George Shultz later argued for a much lower tariff and a compromise was reached at crude oil—21¢, oil product—63¢, still preserving the 42¢ per barrel differential that was viewed as necessary to encourage the expansion of domestic refinery capacity. Members of the Kitchen Cabinet felt strongly that the fee should be greater than zero because they felt the price of foreign oil was not sufficiently above the domestic price to insure an incentive for domestic production.

PRESIDENTIAL ENERGY ADDRESS

On April 18, 1973, President Nixon delivered his long-awaited energy address, of which the key provision was the announcement of the new oil import license fee system.

4. Policy Implementation

As in the Canadian decision the Oil Import Administration (OIA) in the Interior Department Office of Oil and Gas was chiefly responsible for the implementation of the new program. As policy development continued in the Kitchen Cabinet, changes were immediately forwarded to the OIA for incorporation into the official proclamation and regulations implementing the program.

Directly responsible to the Secretary of the Interior, the Oil Import Appeals Board (OIAB) acted, in theory as a continuous "weathervane" of the success of the implementation of the new oil import program. During the Mandatory Oil Import Program, the OIAB was charged with the responsibility of allocating a small number of surplus import tickets to needy sources. Now the OIAB was authorized to grant fee exemptions, particularly to struggling independent refiners and marketers.

VI. ASSESSMENT OF THE DECISION PROCESS

Components of the decision process resulting in the suspension of the Mandatory Oil Import Program on April 18, 1973, will be assessed against a model developed by the Commission for the ideal decision process.

A. WAS A REASONED CONCEPTION OF U.S. OBJECTIVES PRESENT?

Due to the multiplicity of agencies concerned with oil import policy and the more than five-year debate on the merits of the MOIP, a complete range of institutional agendas and conflicting objectives

were brought forward in the decision process. These objectives were the critical focus of heated debates in the Kitchen Cabinet and of the resolution of conflict well below the Presidential level.

B. WAS THE BEST OBTAINABLE INFORMATION RELEVANT TO THE DECISION MADE AVAILABLE?

Inadequate data has been a major problem plaguing all energy policy groups. The three primary sources for data were the Interior Department's Bureau of Mines, Office of Oil and Gas, and the American Petroleum Institute. All obtained their data from one common source (the petroleum industry) and used different assumptions in evaluating data making results uncomparable.

Despite the inadequacy of data, the choice of a tariff system at a time when foreign prices exceeded domestic prices eliminated the necessity to obtain accurate supply/demand predictions. The only information needed for the 1973 decision was a reasoned prediction that foreign prices would continue to exceed domestic levels and an accurate assessment of the refinery cost advantage abroad to determine the necessary license fee differential to encourage domestic refining. The decision outcome indicates that the information obtained in these two areas was accurate.

C. WERE THE IMPLICATIONS FLOWING FROM THAT INFORMATION EFFECTIVELY CANVASSED?

Although Kitchen Cabinet members were successful at tracing the implications of the economics of a license fee system, they neglected to assess the implications of other outside factors on the policy. For example, environmental concerns were a prime reason the policy did not achieve the objectives originally set forth. Little attempt was made to assess if world oil supplies would tolerate a rapid increase in U.S. demand and if sufficient productive reserves existed in the U.S. for the production incentives to be effective.

D. WAS A FULL RANGE OF REALISTIC ALTERNATIVE COURSES PRESENTED FOR CONSIDERATION?

The selection of alternatives was an evolutionary rather than a revolutionary process, but was viewed as quite complete in the presentation of reasonable alternatives to or amendments in the MOIP. The more creative presentation of alternatives, however, came in the development of the license fee system and the debate of pros and cons through the many meetings of the Kitchen Cabinet in Spring, 1973.

E. WAS A FULL RANGE OF RELEVANT CONSIDERATIONS APPLIED?

Primarily due to William Simon's desire for participation from all possible sources, a full range of relevant criteria was presented to decision-makers, but few were actually significantly considered in the decision process. Regardless, the Kitchen Cabinet developed a policy that was palatable to most of the interested groups consulted and largely avoided co-opting the original objectives. The only major area not considered was the long term foreign economic policy implications outside the western hemisphere. This largely stemmed from an absence of information and limited State Department or National Security Council participation in policy formulation.

F. WERE ALL APPROPRIATE PARTICIPANTS CONSULTED?

Participation from sources outside the select Kitchen Cabinet (except for the top echelon in the White House) was on an advice-only basis. William Simon met with industry, consumer, environmental, and any other conceivable group that was interested in discussing the new policy. Cabinet officials were continually briefed about the progress of the proposal and Simon appeared willing to receive their suggestions. Simon was also apparently one of the first energy policy-makers to seek Congressional input before being invited to testify on the Hill. Regardless of the level of participation, Simon remained in control of the decision process and made almost all decisions at the policy level himself.

G. WAS THE DECISION TAKEN AT THE LOWEST LEVEL CAPABLE?

The decision was Presidential, mandated by statutory regulations as part of the Trade Expansion Act of 1962. President Nixon, however, was not concerned about the details of oil import policy in early 1973 and referred the decision primarily to George Shultz. This inattention at the Presidential level and the lack of coordination in the White House Energy Policy Office resulted in no attempt to place oil import policy in the context of a total U.S. energy policy. This same shortcoming was a major drawback of the 1970 Canadian oil import quota decision.

In addition, there was some confusion among members of the Kitchen Cabinet because they received no feed-back from the White House. President Nixon's general tendency was to insulate himself through large layers of White House staff and this was also true for energy policy. There was little,

if any, two-way communication. In this case, last minute changes were made by individuals largely isolated from the policy development process and the new changes were never discussed with the people most knowledgeable about the potential impact of those changes on final policy.

H. WAS THE DECISION COMMUNICATED TO THOSE RESPONSIBLE AND EFFECTED IN A TIMELY, CLEAR FASHION?

The special relationship developed between the Office of Oil and Gas in Interior and the Treasury Department, and the informal relationship of policy-makers and implementers in the Kitchen Cabinet, provided a smooth transition into the implementation phase of the program. The largest problem that Interior's Oil Import Administration encountered was communicating these rapid policy changes to customs officials at the various U.S. ports. Because the Customs Bureau was within the Treasury Department, this problem was minimized.

I. WERE ACTIONS MONITORED TO INSURE COMPLIANCE?

The Oil Import Administration had a modest system for monitoring imports, but this system became totally inadequate as the role of the administration expanded. It was difficult to convince anyone of the need for expanding the role of the OIA because the quota system *was* being phased out. The complexities and inadequacies of the OIA manual bookkeeping system resulted in a three month delay in obtaining data.

J. WERE RESULTS NOTED AND ASSESSED?

Implicit in the suspension of the import quota system, was a plan for a careful review to be taken after one year to measure the success of the system in reaching its stated objectives. To date, there is no record of any review of that policy or any significant changes made. This fact is not surprising considering the rapid changes in political power, an energy crisis of 1973/74 far surpassing the one the previous winter, and an inability to determine within the bureaucracy who was really responsible for oil import policy.

K. WERE THE RESOURCES COMMITTED COMMENSURATE WITH THE TASK?

The critical factor in the success of the decision-making process was the high caliber of staff assigned to the project, most of them on a full time basis. Although their experience would not nor-

mally have elevated them to such responsible positions, the Federal Government faced an energy talent vacuum. These individuals were the most knowledgeable analysts in the energy field in the Government at that time and also possessed outstanding analytical capabilities in general. The lack of ability elsewhere, particularly at high administrative levels, was a key to the success this group had in selling a more analytical—rather than politically-determined—plan.

L. WAS THE DECISION PROCESS AS OPEN AND PUBLIC AS WAS CONSISTENT WITH ITS NATURE?

Characteristic of Simon's desire to hear all opinions, this process was one of the most open possible in the sense that policy options were constantly made public either formally or through purposeful leaks in the system. Although this enabled the group to solicit outside opinion from various sources, the decision-process or policy meetings themselves were not open. This prompted the right mix of an ability to sense public opinion but not have to deal with it explicitly at meetings, one of the problems with decision-making in a body such as the Oil Policy Committee.

M. WERE THE DECISION ACTIONS BROADLY CONSISTENT WITH THE PUBLIC SENSE OF THE U.S. INTEREST?

If one can broadly measure the public interest in terms of the public response to a policy, the suspension of the MOIP successfully reflected the public's sense of proper U.S. objectives. All response from consumer and public groups was favorable, as might have been expected since the real pressure for a change in import policy was expected in the form of public outcries during the winter fuel oil crisis.

VII. ASSESSMENT OF THE DECISION OUTCOME

President Nixon's April 18 suspension of all oil import quotas brought scarcely a whimper of protest from long-time advocates of quotas, while those who had fought the program greeted the President's declarations as a welcome, if belated, step. The change was of major policies dealing only with immediate and highly visible problems.

This section analyzes the outcome of this decision, first the success of a domestic energy policy decision in terms of meeting its original objectives, and second the decision's impact on the domestic oil industry and International Trade.

A. ACHIEVEMENT OF OIL IMPORT POLICY OBJECTIVES

1. Perceived Stability of U.S. Energy Policy

Industry reaction was better than predicted. Most U.S. oil companies agreed that the decision was such a dramatic change in the long run, with provisions included through at least 1980, that this policy was just the stability the industry needed. This position was reinforced by a substantial number of announcements of expanded investment plans.

2. Short Run Increases in Crude Oil and Product Supplies Through Imports

In the few months subsequent to the program announcement, adequate supplies of low-sulfur crude oil became increasingly difficult to find in the world market. Because of environmental restrictions in the Northeast, refineries were required to use only low sulfur crude and the level of imports had risen there from 45% of total consumption in 1970 to 74% in 1972. With the Northeast dominating the low sulfur crude buying, little was left for independent inland refiners who also required low sulfur crude oil, because many of their refineries were not equipped to handle the higher sulfur oil. Thus, the immediate and quite significant increase in demand for foreign crude oil following the April 18 announcement resulted in a short run world-wide supply shortage, particularly of low sulfur crude oil. Products and crude oil shortfalls are still running 10-20% of U.S. demand.

3. Expansion of Refinery Capacity

The one apparent success of the program was the announcement, within 10 weeks of the introduction of the new program, of refinery capacity expansion plans totaling at least 1 million barrels/day. The news was encouraging and indicated that the differential tariff between crude oil and products had been a sufficient signal to industry to encourage new investment decisions.

Despite industry promises of new refining capacity, no construction has yet begun. The uncertainty resulting from the Arab embargo was a delaying factor, but Federal energy policies were a more specific deterrent. As one Exxon spokesman commented, the new imports program "should stimulate the construction of much-needed refining capacity in the U.S., however, industry actions will be strongly influenced by the reasonable and expeditious handling of the environmental and siting problems that the President calls for in his mes-

sage".²⁴ And many of these recommendations have not been implemented to date.

Although the outcome was not as desired, the capacity problem is not as critical as it was thought it would be. With crude oil in short supply, refineries are operating at less than 90% capacity, not critical in the short run. As the price of foreign crude soared, many inefficient refineries that had been closed in the 1960s could not be reopened and operate profitably.

4. Expansion of Production Capacity

Because foreign oil prices exceeded domestic prices, there was every indication that the import policy itself should stimulate additional production capacity, but that has not happened. One critic maintains, "The environmentalists, or some groups of them at any rate, are also opposed to just about every measure that might eventually increase America's domestic sources of energy: The exploration of the outer continental shelf, where prospects look good for further oil discoveries; the extraction of oil from oil shale; the building of the Alaskan pipeline; the spread of nuclear power stations; the burning of more coal and so forth."²⁵ The remainder of the President's April 18 message tried to address these problems, but Charles DiBona's White House staff was accused of diluting these policies from the original proposals developed by Peter Flanigan through interagency task forces. The lack of Presidential attention was also cited as significant cause.

B. DECISION IMPACT

1. The Domestic Oil Industry

The major international oil companies generally applauded the lifting of restrictions on imported oil. As the foreign price of oil continued to increase, these major companies could expect substantial increases in profits by expanded trade in foreign oil.

One of the first and most forceful complaints about the new import program came from Edwin Dryer, general counsel of the Independent Refiners Association of America, who claimed the fee schedule had been set too low to be of benefit. The independents primarily lacked easy access to foreign shipments and long had relied on crude supplies from nearby fields controlled by the major companies. With supply shortages and low fees, major oil companies had little incentive to supply the independents, forcing them to compete in a highly competitive world market.

²⁴ *Oil and Gas Journal*, April 30, 1973, p. 86.

²⁵ *The Economist*, April 28, 1973, p. 99.

2. The Congress

Congress generally applauded the new import program as a step toward averting a supply crisis. On the other hand, a majority generally sympathized with the plight of the independent oil company. A result of this sympathy was the passage of the Eagleton amendment to the Economic Stabilization Act passed on April 30, 1973, delegating the authority to allocate crude oil and products if necessary, to the executive branch. Senator Eagleton maintained that the veritable flood of letters and phone calls from independent marketers and refiners starting on April 19 definitely aided the passage of the legislation.

3. International

International reaction to an official change in U.S. import policy was negligible, predominantly because it would not mark a substantial change in U.S. policy or in the level of U.S. imports. An argument has been presented that the formal suspension of the MOIP could have served as a signal to the OPEC countries that the U.S. had finally admitted increasing dependence on foreign energy sources. This could have resulted in increased OPEC demands on the U.S. for higher prices and further nationalization of U.S. oil company foreign installations.

With hindsight, the majority of the actors involved in the process argue against this hypothesis, claiming that OPEC demands and the later Arab oil embargo were related to the U.S. international political situation, primarily relations with Israel, and were not based in any part on U.S. oil import policy.

Reaction from Western Hemisphere countries was also quite mild. The Western Hemisphere preference was to be gradually phased out over a seven year period, causing no immediate alarm. Announcement of policy changes to these two nations was handled well before April 18 through State Department diplomatic channels, and any problems were worked out at that time. Both Canada and Venezuela had recently become concerned about their own decreasing supplies, and were less insistent on substantial exports to the U.S. In fact, as pointed out in the earlier paper, Canada had recently imposed export quotas on oil to the U.S.

VIII. ASSESSMENT OF PARTICIPATING ORGANIZATIONS (SEE TABLE III.)

The decision to suspend the MOIP was an individual (William Simon), lead agency (Treasury Department) decision with policy assistance provided

by both the White House and the Interior Department. The organizational composition of both the 1970 and 1973 decisions were similar in their lead agency approach. However, the lead agencies were totally different, even though both decisions dealt with oil policy. This can be explained largely by the powerful influence of one individual, William Simon, in assuming a leadership role in a policy area of fluctuating leadership. The following section assesses the performance of the institutional and individual actors in the 1973 process.

THE WHITE HOUSE

The Executive Office Reorganization Plan implemented in January 1973 isolated the President further from energy policy through the addition of two new White House Energy Policy groups.

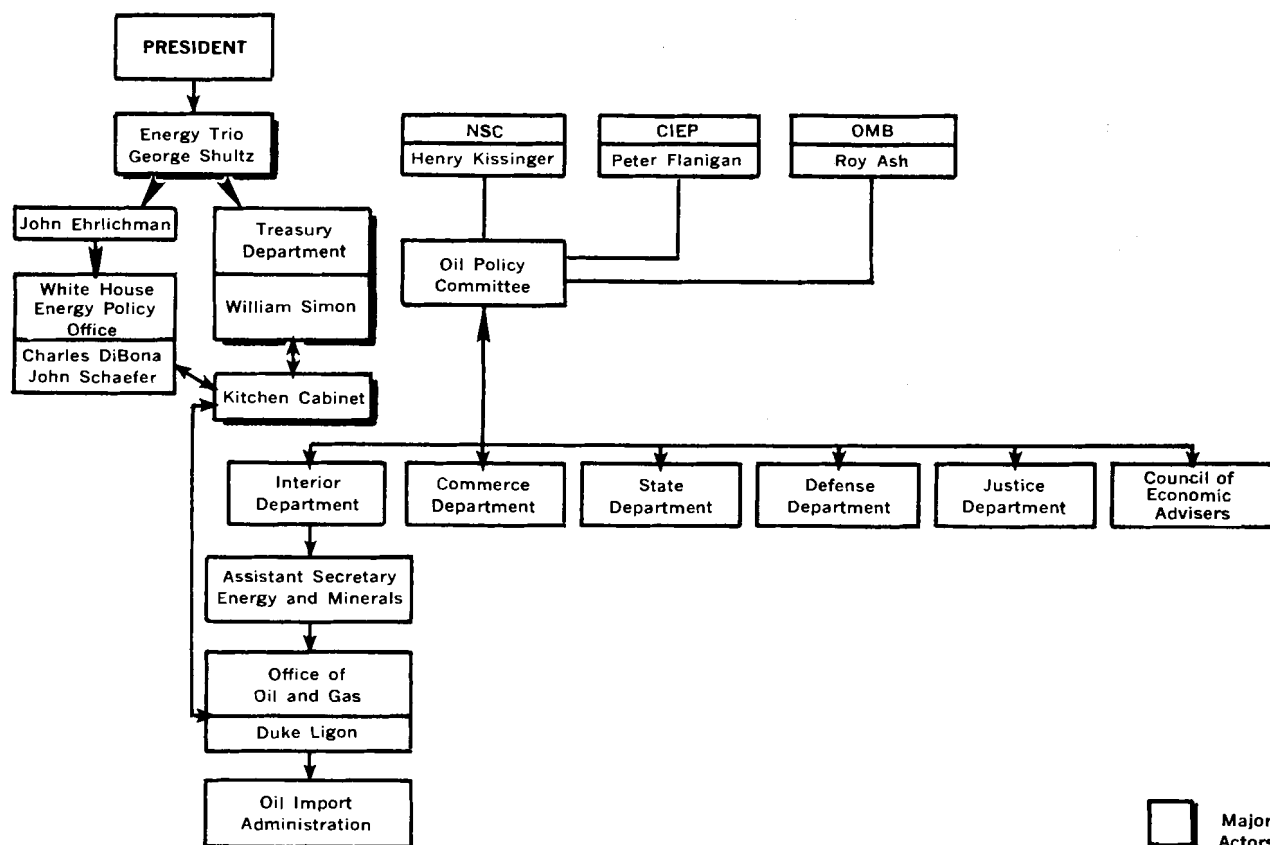
The first new addition was the "Trio" consisting of George Shultz, Henry Kissinger, and John Ehrlichman. The President's expressed intent for assigning top-level energy policy review authority with this group was based on desired coordination of the various interests, foreign and domestic, on which any energy policy would impact. The group

never did become an effective force, largely because of the preoccupations of all its members in other policy areas and in Ehrlichman's case, Watergate. It remained, however, a key sign-off point in the process.

A functioning Energy Trio could have greatly expanded the range of policy alternatives and considerations and could have provided a focal point for meshing the interests of the oil import program with a total view of U.S. energy policy objectives. George Shultz could have added more than he did of his experience with a tariff proposal of his 1970 task force. Henry Kissinger, had he been interested, could have presented the long range foreign policy implications that were missing almost entirely from the proposal. John Ehrlichman served a key coordination role and could have paved the way to increased Presidential access and attention, something neither DiBona, nor Simon could accomplish alone.

The second new addition to the White House Staff was an Energy Policy Office directed by Charles DiBona. With the Strong coordinating role of the Energy Trio missing, William Simon and

TABLE III.—OIL IMPORT POLICY—ACTUAL ORGANIZATION—APRIL 1973



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Charles DiBona found themselves competing for control of oil import decisions, leading to a bitter feud.

Although formally DiBona possessed a higher rank, Simon had critical advantages in dealing with policy in the Treasury Department that DiBona did not have at the White House. First, Simon could use the press and did so effectively. As Deputy Secretary of the Treasury Simon had many more duties than just oil import policy, so his government career did not so much hinge on one program, or one energy message as DiBona might have felt his did.

DiBona, on the other hand, was part of a staff that had as its chief the President. Unlike the Executive Office of the President, the White House staff is the President's personal staff and speaks for the President in all matters. As Policy was developed, DiBona had to have the clearance of all White House counselors, including the President. DiBona himself could never hold a news conference; it always had to be in the name of the President.

DiBona was also unsuccessful at developing the kind of working relationships with executive agencies that William Simon had with the Interior Department. DiBona did not have Presidential access. Without it, his requests had no clout and agencies learned there was no need to respond.

THE ENERGY "CZAR"

Through the eighteen months from December 1972 through June, 1974, the U.S. has seen the rise and fall of five energy "czars": George Lincoln, Charles DiBona, John Love, William Simon, and John Sawhill, none of them with any prior experience in energy. This "musical chairs" at the top policy coordinating level had a significant impact on the development of energy policy.

First, the rapid change in leadership resulted in an increasing incentive to consider only short range domestic political objectives and neglect the development of a total U.S. energy policy. Second, the lack of knowledge at the top elevated the importance of those second in command. In the case of the license fee program, this resulted in a more long-range analytical approach. Later the result was placing heavy administrative burdens (with the formation of the Federal Energy Office) on relatively young staff members, inexperienced in line management but with the undoubted or unchallenged credentials that they knew more about energy than anyone else in the government. Third, each new czar had to learn how to get access, support, and resources from the White House and Executive agencies. Fourth, industry pressures on the White House increased with each addition of a new and inexperienced czar.

OIL POLICY COMMITTEE

William Simon obtained his policy authority for the oil import program through his appointment as Chairman of the OPC, although he never used this group for policy development. In view of both his predecessor, George Lincoln's, and his successor, John Love's, inability to effectively use the OPC, Simon's decision may have been a wise one.

Part of the problem was management style. Neither Lincoln's nor Love's strength was managing a group and bringing it to a consensus. Neither Director would act following committee discussion and debate until a problem reached crisis proportion. The failure of the OPC, however, was not entirely a personality issue. The group itself represented widely diverse interests and conflicting viewpoints. Its members had varying interests and backgrounds in energy, and energy was not yet considered a problem of critical proportion. The group succeeded in airing most of the differing viewpoints on a policy question, but was too unwieldy to seriously consider long range, technically complicated alternatives to provide the drastic change needed in the import program.

While not using the committee, Simon did develop an informal means for receiving OPC input and insuring minimally bruised egos by a secondary role for the committee. As soon as major policy changes were determined, all members of the OPC were forwarded copies for their comment.

Even through this secondary role, OPC members indicated support for the proposal and felt that they had had adequate input in its development. Simon did call a meeting of the Committee on April 16, prior to the President's announcement, as a gesture to assure Committee members that they had not been left out of the process. Simon only sought final sign-off and approval from Cabinet-level actors he thought critical to the successful issuance of the policy. They were George Shultz; Henry Kissinger; John Ehrlichman; Roy Ash, Director OMB; and Peter Flanigan, Director CIEP.

TREASURY DEPARTMENT

The Treasury Department, through William Simon, received its oil import responsibilities for two reasons: (1) The recommendation of Treasury Secretary George Shultz, who also served as White House Economic adviser and (2) A desire to keep energy policy away from the direct charge of either the Interior or Commerce Departments because of their purported industry bias.

The key to Treasury's success in selling its plan was George Shultz, who in April became the administration's chief energy spokesman. Simon had access to neither the President nor John Ehrlichman in the White House. Schultz did have such

access and was highly supportive of a license fee plan in that it was very similar to a proposal his Task Force had made to the President just three years earlier.

THE KITCHEN CABINET

The Kitchen Cabinet replaced the Oil Policy Committee as a forum for deliberation of the various policy alternatives in the development of the license fee system. Much of the detailed development of option papers took place in a staff working group composed primarily of William Johnson and Phillip Essley, Treasury; John Schaefer, White House; and Charles Owens, Cost of Living Council.

The key to the success of the Kitchen Cabinet was its small size and the caliber of the staff chosen. Although united on the license fee system as the appropriate alternative, the group differed considerably on the details of that program. Every member of the group felt that at the conclusion of the process, they had exhaustively considered every possible option and point of view. This paid off in the implementation, because no major policy changes were required, and most of the results of the policy had been charted beforehand and were expected.

The gathering of this particular group was also significant in that it was just these individuals who took the lead in energy policy for at least a year following this decision and they remained in influential posts. Because the group represented the critical agencies and offices responsible for energy policy in 1973—Treasury, White House, and Interior—their later informal network enabled them to stay in control of many energy policy issues. When Simon was brought in to form the Federal Energy Office in December 1973, it was just these individuals who were given key posts in the Simon organization.

INTERIOR DEPARTMENT

The personal contact between William Simon and Duke Ligon, and Ligon's later decision to leave Treasury for the promotion as Director of Interior's Office of Oil and Gas (OOG), enhanced the coordination of policy with its implementation. In addition, the Treasury Department relied heavily on the policy expertise of the Interior Department staff in the development of various option papers and the collection of necessary data.

However, Ligon's appointment to Interior actually weakened the agency role of the Interior Department. As a result, Simon had direct control over decisions at Interior. Ligon's chief function in the decision-making process was to deliver the assistance of his staff at Simon's request on a continuing basis. Stephen Wakefield, newly appointed As-

sistant Secretary for Energy and Minerals, had assumed responsibility for a larger and more complex organization and had little management experience. Much of his time was spent in managing his own organization, with little time left for oil import policy. Secretary Rogers Morton was also not involved in the decision process, some aides claimed by his own choosing. In the final approval process, Simon did not seek Morton's input or approval on a formal basis.

THE DEPARTMENT OF STATE

All involved in the decision-making process claimed that this oil import decision was predominantly a domestic energy policy decision, rather than an international economic policy decision. This was primarily due to Simon not seeking policy input from either the State Department or the National Security Council.

The State Department inactivity was a considerable departure from State's previously dominant role in oil import policy in 1970-71. Staff changes were a partial explanation. The position of Undersecretary of Economic Affairs had been vacant for almost a year and Phillip Trezise had recently left his post as Assistant Secretary for Economic Affairs. James Akins had moved to the White House after six years as Director of the State Department Office of Fuels and Energy.

Only Julius Katz, lent continuity to oil import policy at the State Department. Katz was the State Department representative to the Oil Policy Committee and did confront William Simon with his concern that State had been excluded from the decision process, and wanted some input into Western Hemisphere import policy.

The Office of Fuels and Energy, under the direction of George Bennsky, took the lead role in the development of a Western Hemisphere preference policy. Although this was only a small part of the total package, it slowed the final decision because of State's inability to meet William Simon's deadlines and last minute changes in the plan.

George Bennsky was a career foreign service officer with little experience in energy and a staff of four to six who similarly lacked much technical expertise. Both the small size of the staff, its lack of expertise, and as a result, its heavy dependence on the oil industry and foreign embassies for economic data rendered it largely ineffective. This same problem had been characteristic of the 1970 Canadian oil decision. Another missing key was top level State Department input to and communications with the operating level. Deputy Secretary of State John Irwin was deeply involved in negotiation with Japanese and European representatives to the Oil Committee of the Organization for Economic Co-

operation and Development (OECD) to gather support for a unified organization of oil consumers. U.S. import policy was never discussed in this forum; not were results of these negotiations discussed with policy-makers in the Kitchen Cabinet.

CONGRESS

Congressional interest in the oil import program first became noticeable in 1968, with the beginning of numerous Congressional committee hearings on the import question, fuel shortages, and other energy related topics. Principals in energy policy found themselves constantly on the Hill testifying to these various committees with no attempt to centralize the responsibility in one or two. Since 1973, most of the hearings have taken place in Senator Jackson's Committee on Interior and Insular Affairs. The coordination problem has not been eliminated and had been cited as a possible reason why Congress did not approve President Nixon's plans to reorganize energy agencies into one Department of Energy and Natural Resources, and delayed in approving any of the President's proposals to increase domestic oil production capacity.

IX. PROBABLE PERFORMANCE OF ALTERNATIVE ORGANIZATION STRUCTURES FOR OIL IMPORT POLICY

The following section contains an evaluation of the four alternatives to organization as outlined by the Commission. Analysis is based on how well each would have responded to the organizational shortcomings of both the 1970 and 1973 foreign economic oil policy decisions. Finding shortcomings in each of these alternatives, we have designed a fifth organization model to provide a more workable arrangement for energy policy decision-making.

MODEL 1—STRONG WHITE HOUSE

The Canadian oil decision of March 1970 displayed both positive and negative features of the strong White House model. Taking the positive features of this model, the controlling role played by the White House in the Canadian Oil decision had the advantage of ensuring that the issue would be directly communicated to the President when the time came for a final decision. Because the bilateral Canadian-U.S. negotiations were carried out under close surveillance by the White House, unacceptable options were discarded if not politically feasible, and the President was not put in a position of facing unacceptable alternatives.

High-level Presidential staff involvement of one individual, Peter Flanigan, and his concurrence with the final OPC policy recommendation lent weight to the issue resolution by the President. Flanigan's involvement contributed to an orderly decision process.

The level of the White House staff involvement in the Canadian decision was not as senior nor as broad as envisioned in Model 1. Strengthening the staff role under Model 1 would probably provide increased access to and discussions with the President as well as offer more complete background analysis. A strong White House model would facilitate the development of foreign economic and energy policy objectives to serve as guides to operating departments.

On the negative side, the dominant White House role in the 1970 Canadian oil decision tended to insulate the decision process, making it closed and secretive. The secretiveness of the process made it more receptive to domestic political pressures by the oil industry and less accountable to Congress and the public. This drawback of a closed decision process would still exist under Model 1.

The decision to suspend oil import quotas in 1973 should theoretically have been a strong White House model but that structure never functioned as planned.

In terms of the positive features of the model, the energy trio should have centralized policy formulation, facilitated access to and clear direction from the President, and placed objectives and criteria for the oil import program in the context of total U.S. energy policy. Instead, groups in the White House, Interior Department, and Treasury Department competed for policy responsibility; those closely involved had no access to the White House; and all conflicting objectives were resolved only in the context of oil import policy. For this model to provide successful results, a dominant, high-level counselor, like John Ehrlichman, must be active in policy development, which was not true for the 1973 decision. This is particularly important when policy results from the crisis orientation that was part of energy policy formulation in 1973.

Many of the weaknesses of the model were displayed by the actual White House role in the 1973 decision. The process was closed to consumer and Congressional interests. The transitory nature of the Energy Policy Office resulted in the consideration of only short range political objectives. Relations between the White House and the Interior Department were strained, and without a strong Presidential commitment, policy implementation would have been difficult to coordinate. The success of the model depends greatly on the personal interest and commitment

of high level staff. Henry Kissinger, clearly the Chief White House foreign policy adviser, was not involved in energy policy, leaving a substantial gap at the White House level.

MODEL 2—STRONG STATE DEPARTMENT

The Canadian oil decision has been characterized as a lead agency (State department) decision, and thus can be used to evaluate the advantages and shortcomings of Model 2. This model offers a number of organizational opportunities for effective foreign economic decision making. Among its positive features are: a framework for including foreign economic policy as part of a total foreign policy viewpoint, assigned responsibility for a single national definition and articulation of foreign policy objectives, and creation of a unified negotiating approach. In the Canadian case, only the latter feature was discernible. The remaining organizational opportunities afforded by the strong State Department model were never properly utilized to manage foreign relations. The structure for a stronger policy role existed, yet the supporting infrastructure was weak.

Even though the Assistant Secretary of State for Economic Affairs assumed responsibility for bringing this issue to an action point, foreign and domestic political objectives took precedence over foreign economic ones. State Department's inadequate assessment of Canadian reaction, the strong concern for Venezuelan interests, and the commitment to an elusive foreign policy goal of common energy policy with Canada were politically rather than economically based.

The Canadian decision illustrates the difficulty of defining a problem as either a political or an economic one, and thus the difficulty of assigning major responsibility within the organization for that problem. In the Canadian case, responsibility was assumed by the Economic Bureau with a resulting loss in input that should have come from the Embassy and the Office of Canadian Affairs. Philip Trezise, alone, relied on his own political rather than economic insights. It appears that State Department political and economic roles were never defined and internal resources never coordinated. Under a strong State Department model the foreign policy perspective would have to be broadened to ensure that all components—economics, politics and national security—would be considered. This would involve enlarging the Department's staff capabilities for proper economic analysis.

In the 1970 decision, the State Department was never given authority to define broad foreign oil policy objectives; that responsibility was reserved by the White House. Unless State Depart-

ment economic and oil expertise is increased, it is questionable whether this agency could assume lead responsibility for oil policy. It has been pointed out by other government officials how difficult it is to recruit oil knowledgeable people to serve in the government who are not biased towards the oil industry. Because the foreign service structure does not encourage specializations, there is little internal motivation for FSO's to become oil experts.

A strong State Department role was the important ingredient missing from the 1973 decision to suspend oil import quotas. This resulted in the absence of foreign policy interests and objectives from deliberation in the decision arena. In the minor role actually played by the Department, it performed the important function of communicating the substance of the new policy to our Western Hemisphere oil trading partners.

The organizational structure and resources of the State Department did not permit it to effectively participate in the detailed development of policy options. In addition to the previously mentioned small staff and lack of adequate information, the Director of the Office of Fuels and Energy was new and inexperienced in energy matters. The Office was also buried in the economic staff, with no line responsibility to economic bureaus throughout the world, thus inhibiting its ability to obtain accurate and timely information. There also existed no component to coordinate economic information on a regional or geographic basis.

The model also requires a strong Secretary of State with a broad economic background and perspective, or the Secretary's delegation of considerable authority to a strong Under Secretary for Economic Affairs. During both the 1970 and 1973 decisions, the Secretary of State was too weak, and the current Secretary of State has been thus far unwilling to give economic issues the time and attention they require, or to delegate the necessary authority to an Under Secretary. There is also a corresponding lack of emphasis on economics throughout the department. Most foreign service officers know that the way to promotion is through the political organizational channels and not through economic organizational channels.

Even if the Department could present the broad policy-making concerns needed, the problem of dealing with the many domestic agencies with a vested interest in energy policy and weighing all the conflicting objectives is probably beyond the scope of the State Department and would have to be considered only at the White House/National Security Council level.

One additional shortcoming to this model, is that it does not guarantee access to and clear direction

from the President. The personal standing of the Secretary of State becomes an important factor in assessing the viability of this model, in terms of how close the person holding this position can become to the President.

MODEL 3—DECENTRALIZED

The Canadian oil decision structure reflected some characteristics of this model in that the White House utilized the interagency Oil Policy Committee to reach a consensus. This exercise was almost an afterthought, though, and the process was not truly one of deliberation between equally interested and involved agencies as the decentralized model suggests. If the State Department had not assumed a lead role in the OPC it is questionable whether this issue would have been resolved when it was. The problem of how to organize the varied interests of a number of actors to come together to reach a decision remains with the choice of this organizational structure. The possibilities for non-decisions appear greater than incentives for decisions.

The failures of the Oil Policy Committee structure for energy policy decision-making leave some doubts that a decentralized model could have been used to reach the 1973 decision to suspend oil import quotas. Although a full range of institutional actors and interests was represented, the policy decisions involved too much technical detail to reach a timely consensus in a group such as the Oil Policy Committee.

The only way this model could be successfully applied to energy policy would be the existence of a single dominant energy agency with Cabinet level status. Such an agency does not now exist because the Federal Energy Agency is not represented on the Cabinet. If it were represented, the model's success would heavily depend on personal relationships and the personalities of the Cabinet members.

MODEL 4—TWO TIERED

In the Canadian case this two-tiered model might have facilitated the development of the oil policy goals and objectives that were missing from the decision process. Possibly, foreign and domestic policy concerns might have been better balanced and a parochial political State Department viewpoint avoided. However, without a Secretary of State knowledgeable and aware of foreign economic aspects of foreign policy there is no guarantee that the broad economic analysis lacking in the Canadian decision would be corrected.

This model does not explain how assessment of probable foreign reaction would be incorporated into the decision process. The 1970 oil de-

cision suffered from the down-playing of this consideration. If the State Department's foreign reporting function were separated from foreign policy decision-making, as is suggested in this model, a clear link between the two would have to be developed to channel information to decision-makers.

The effectiveness of this model for the 1973 import decision would also depend on a strong Secretary of State, with a background and interest in economics. This model could then facilitate the development of a total U.S. energy policy, balancing both the domestic and international consequences of that policy. The 1973 decision highlights the success a strong lead actor can have in developing a qualified staff, obtaining necessary cooperation, and reaching a timely decision.

A key weakness of the model is the problem of coordinating implementation, particularly with the State Department possibly demoralized by loss of its policy development function.

PROPOSED MODEL 5—STRONG WHITE HOUSE/LEAD AGENCY

This proposed organizational structure provides the following attributes for the development of energy policy: flexibility, an ability to command resources quickly and efficiently, broad scope of domestic and international policy input, coordination of various energy functions, and access to the President.

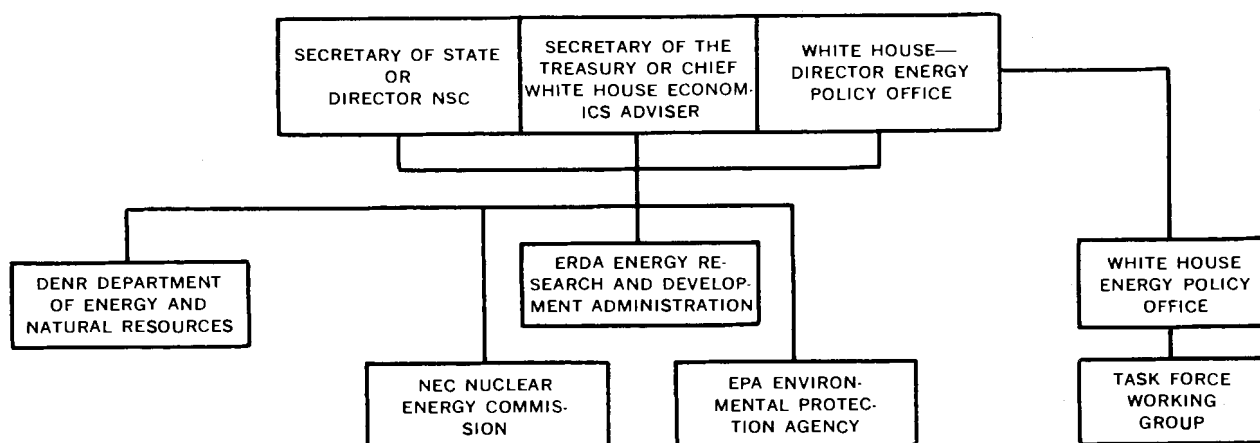
The structure consists of three major components: the Cabinet-level Task Force on Energy and the Environment, a working group, and three new energy administrations in addition to the existing environmental agency. (See Table IV.)

1. Cabinet Level Task Force on Energy and the Environment

The Task Force would have three members: a top level White House counselor as Chairman, a top level economic adviser (either Secretary of the Treasury or chief White House economic adviser), and a top level foreign policy adviser (either Secretary of State or Director of the National Security Council). Administrators for each of the four relevant agencies would serve as ex-officio members. The defining features of the Task Force are as follows:

- Meetings would be called by the Chairman on an as-needed basis.
- The Task Force would set broad, overall policy for energy and the environment and delegate subordinate policy decisions to the appropriate agency.
- The Task Force would act as a forum for

TABLE IV.—CABINET LEVEL TASK FORCE ON ENERGY AND THE ENVIRONMENT



resolving conflicting objectives without seeking Presidential assistance where feasible. The implications of the Task Force's role are as follows:

- Coordination of all energy and environmental policy in one body, bringing in both foreign and domestic economic policy.
- Control of the bureaucratization of various agencies with vested interests in their own survival. (The relevant example here is the effectiveness with which the Cost of Living Council controlled the expansion and role of the Price Commission and the Pay Board and eventually called for their dissolution when their function ceased to exist).

2. Task Force Working Group

At the same time, a small office of Energy Policy would be formed in the White House with a correspondingly small staff. The chief of that staff would be designated as Chairman of an Energy and Environmental Policy Working Group. This individual would maintain the authority to call members of the staff of the respective agencies for use at his discretion and dependent on the relevant policy issues currently being discussed in the Task Force meetings.

A working group is not a new concept and it was used with great success by the Oil Policy Committee under General George Lincoln. Such a working group brought together the most knowledgeable staff on any substantive issue discussed, presented a forum for discussion of the various agency parochial interests, and eliminated the necessity for the Task Force to hire an outside staff of its own.

3. Three new energy agencies

The establishment of these three new agencies is the same proposal advanced by President Nixon on June 29, 1973, and not yet implemented by Congress. The three agencies are as follows:

- A Department of Energy and Natural Resources (DENR) to manage many of the programs now carried out by the Federal Energy Administration.
- An independent Energy Research and Development Administration (ERDA) to provide nuclear research and management capabilities of the Atomic Energy Commission (AEC) plus most other research and development programs in fossil fuels and other energy sources currently being conducted by the Federal Energy Administration and the Department of Interior.
- A five member Nuclear Energy Commission (NEC), which would take over the licensing, regulatory, environmental and safety functions of the present AEC, leaving the new energy administration free to concentrate on research and development.

These three agencies, with the approval of the Task Force, should develop a mechanism for the independent collection and monitoring of energy supply, demand, and pricing information. Only with accurate and timely data can this organizational structure maximize the effectiveness of long-range foreign economic energy planning and analysis.

In order to be successful, however, Congress must approve the preceding energy structure and it has been unwilling thus far to do it. Part of the blame is the fact that Executive Department energy reorganization will necessitate Legislative Branch reorganization. A recent Library of Congress study

of committee jurisdiction for energy legislation in the House of Representatives found, for example, that six committees have important responsibilities for coal, and also found that there is no clear jurisdiction over energy conservation and solar and geothermal energy. Rep. Craig Hosmer, R-California, stated that "The House is so 'balkan-

ized' with relation to energy matters, that I'm surprised we ever get anything accomplished." Some reform in committee structure must take place to avoid the current overlapping of jurisdictions and mandates and the inattention to some areas that exist both in the House and the Senate in relation to all energy policy.

The Decision to Send East-West Trade Legislation to Congress, 1965-1966

Edward Skloot
November 1974

SUMMARY

This is a study of the decision to write and send East-West trade legislation to Congress in 1965-1966. It begins with relevant background, notably President Kennedy's decision to expand trade relations with the Soviet Union in 1963. It ends with the decision by President Johnson to have Secretary of State Dean Rusk submit most-favored-nation (MFN) legislation to Congress—a move which the President knew was tantamount to letting the bill die.

The study makes the following points:

1. *Trade policy has long been a political instrument of the Cold War, occasionally clothed to look like an economic (trade) issue.* In fact, since the end of World War II, trade policy has been a political instrument used to deny Communist states strategic and non-strategic goods. Exports from the US to all of East Europe in 1963, for example, were only \$170 million, or 0.6% of total export trade. This sum was less than total American sales to Switzerland.

2. *President Kennedy, and especially President Johnson, repeatedly sought opportunities to diminish East-West Cold War rivalry. Trade policy was one instrument used within this larger political strategy.* Accordingly, the move to write trade legislation was not a one-shot event, but one of many activities which came to be called (under President Johnson) "bridge building."

3. *The efforts by Presidents Kennedy and Johnson to use trade policy to encourage political detente were largely ad hoc approaches, grafted on an unresponsive bureaucracy.* The organizational behavior of offices and bureaus in the State Department, as well as other

agencies, was characterized by an inability to break with established, restrictive policies. Kennedy moved the locus of power on trade matters from the Commerce Department to the State Department and the White House. Johnson maintained this arrangement, and between 1964-66 he took a substantial personal role in advocating change.

4. *Moves to change trade policy, centered in the State Department and the White House, were promoted by a few key actors who were not locked into specific organizational roles.* These same individuals were stimulated and enabled to act by the influence their roles permitted. Put another way, the "movers and shakers" of policy change comprised an informal network of like-minded colleagues uninhibited by their organizational roles and directly responsive to presidential concerns. They were high enough in the bureaucracy to be in personal contact with the most senior policy-makers, yet low enough to be fully conversant with the substance and political complexities of East-West trade. A measure of their activities can be derived from their involvement with trade expansion talks with the government of Rumania early in 1964.

5. *The State Department innovators of trade policy were successful in pushing for policy change because they had the overall support of the President.*

6. *President Johnson supplemented formal organizational structures by appointing a high-level committee of distinguished businessmen (the Miller Committee) to articulate and give credibility to trade initiatives.* This move was a tactic to convince Congress and the wider public of the benefits of East-West trade—in the present case, legislation to give the Presi-

dent discretion to negotiate MFN agreements with Communist states.

7. *Expanding East-West trade through legislation had only a fair chance of passage under the best of circumstances.* Organized labor and parts of public opinion staunchly opposed trade expansion. Numerous senators and congressmen were skeptical, including Wilbur Mills, Chairman of the House Ways and Means Committee, through whose committee the proposed legislation would have to pass.

8. *The final push for East-West trade legislation required a strong and continuing White House presence.* When matters moved from advocating new trade policy and moving it through the bureaucracy, to lobbying for MFN legislation and trading among desired legislative programs, the President, himself, moved to center stage. This was appropriate behavior. Only he could finally select among important legislative programs. Ultimately, President Johnson had to choose among competing legislative programs, among which were many Great Society initiatives. East-West trade legislation, facing opposition in Congress and parts of the country, and to some extent clouded by American involvement in Vietnam, became a casualty of the President's choices among legislative programs.

Finally, in an Annex to the East-West trade legislation story, this study discusses the collapse of the first significant US business venture in East Europe since the end of World War II. This was the plan by Firestone Tire and Rubber Company to build a \$40 million synthetic rubber plant in Rumania. Although the collapse of the agreement was not central to the success or failure of trade legislation, the account further demonstrates the State Department's organizational weakness in dealing with an international matter of clear domestic importance. The account also indicates the pervasiveness of anti-trade sentiment in various parts of the country.

In sum, the study concludes that the US government was briefly successful in advocating and orchestrating a trade policy change via legislation, but that evolving domestic and international problems forced the President to abandon his legislative plans. It also concludes that this temporary success was more the product of key individuals using informal channels of communication and leverage than it was of formal, established mechanisms working under presidential orders. The case study strongly suggests that policy initiatives should not be expected from regular channels and that *ad hoc* bodies, under strong White House direction, are needed to achieve major policy redirection.

I. TRADE POLICY: LEGAL AND ORGANIZATIONAL BACKGROUND

Export and import policies are opposite sides of the same trading coin. Each affects the movement of goods by applying (or removing) state-imposed restrictions in the pursuit of national objectives. Policies can take various forms, from tariff barriers against imports to restrictions on the classes of goods a country's nationals are permitted to export.

Since the end of World War II two themes have marked US trade policy toward the Soviet Union and East Europe. First, harshly restrictive trade legislation has been tempered by a flexible interpretation of the law by the President. Second, presidential moves to liberalize trade, while individually successful, were not cumulative in their political effect. Opposition to trade liberalization in Congress and in parts of the public remained strong.

Among the several restrictive pieces of legislation was the *Trade Agreement Extension Act* (as amended) passed in 1951. Section 5 of the Act required the withdrawal of all trade concessions (granted under the *Reciprocal Trade Agreement Act of 1934*) to the Soviet Union and to "any nation or area dominated or controlled by the foreign government or foreign organization controlling the world Communist movement." This broad denial essentially forbade Washington from granting most-favored-nation (MFN) treatment to imported goods from Communist states.

The President was left to determine which countries fell under the Act. President Truman immediately asserted that Yugoslavia was not so "dominated or controlled." He exempted Belgrade from the Act's provisions. Later, in 1960, President Eisenhower proclaimed Poland exempt from the Act's provisions. These were the only two Communist states to retain MFN status. All other East European states were written off, irrespective of their differing political development.

In the 1950s and 1960s the Executive branch regularly sought to expand its discretion to deal with the "bloc." In 1962 the conflict between presidential discretion and congressional restrictiveness broke into the open. President Kennedy asked for legislation continuing his discretionary power to give MFN treatment to bloc countries. Instead, Congress voted a substitute bill, carrying the same but now mislabeled title of the *Trade Expansion Act of 1962*. This law removed the President's power of discretion regarding MFN treatment to any state "dominated or controlled by Communism." The law specifically meant Yugoslavia and Poland.

Wilbur Mills, Chairman of the House Ways and Means Committee, was responsible for the change.

He claimed he couldn't support the same import policy approach for both Communist and non-Communist states. Section 231(a) of the Act directed the President to suspend MFN treatment "as soon as practicable." The Administration resisted and ultimately prevailed. Throughout 1962 it stalled. Simultaneously, it strenuously lobbied for the continued exemption of Poland and Yugoslavia. One year later it got an amendment to the *Foreign Assistance Act of 1963* permitting continued exemption. Nonetheless, the question of continuing and extending MFN treatment to other Communist states remained a sore point between the President and Congress.

HOW EXPORT CONTROLS WERE ORGANIZED: RED TAPE AND DISSENSION

Under the *Export Control Act of 1949*, President Truman was granted discretion to set regulations which would control export trade with Communist states. He delegated his discretionary power to the Department of Commerce, which established an office to deal with the question. In the early 1960s, the office was called the Office of Export Control (OEC) of the Bureau of International Commerce. The OEC was a working-level group of middle-echelon bureaucrats, whose tasks were to issue export regulations, grant or deny applications for licenses and investigate violations of the Act. By the mid-1960s the Office was guided by three inter-departmental review committees, on which were represented the Departments of Commerce, State, Defense and, on occasion, in an *ad hoc* capacity, Treasury, the "intelligence community," Agriculture and Interior. Each of the three committees was chaired by a Commerce Department official. (See Chart I.) By administrative decision, each of the three committees, and the OEC itself, could act only by unanimous vote. When unanimity was not obtained, decisions would be pushed up to the next higher committee.

At the first level of review was the Operating Committee. Composed of persons of the bureau chief level, it dealt with troublesome license-granting questions and the extent to which different classes of goods would be limited for export. Then came the Advisory Committee on Export Policy, composed of Assistant Secretaries or their representatives, and chaired by the Assistant Secretary of Commerce for International Affairs. Unresolved licensing and policy matters were debated but not always resolved at this level. An ultimate point of review, composed of the Secretaries of Commerce, State and Defense, was created by President Kennedy in 1962.

The Export Control Act simply prohibited commercial exports (except to Canada for domestic

use) without a license. There were two kinds: broad "general" licenses for most categories of goods destined for most non-Communist states and some Communist states, and "validated" licenses for special items whose destination was usually to Communist states.

US exporters frequently had to apply for "validated" licenses to sell to East Europe and the Soviet Union. They were granted by the OEC depending on destination, size of shipment, and the presence of the commodity in question on the government's Commodity Control List. The List, in turn, was part of an annually updated Comprehensive Export Schedule which enumerated various country categories, as well as which items could be exported to them. There were seven categories of states, labeled S, T, V, W, X, Y and Z, to which certain classes of goods were permitted. In the early 1960s, Group V included non-Communist states outside the Western Hemisphere and Yugoslavia. Group W comprised only Poland and Rumania. Group Y included other "bloc" states plus the Soviet Union.

Relatively few commodities could be shipped to Communist states under a "general" license (and few items that they wanted to buy were permitted). Commerce's approval of applications for validated licenses was always hard to obtain, involving lengthy justifications and bureaucratic delays. Moreover, an application to export could be submitted to OEC only with a firm purchase order in hand. This regulation sharply curtailed applications, since few businessmen would expend the time and money to close a sale they could not be sure would be approved by their own government.

Thousands of items moved on and off the commodity list. The red tape of implementation continually expanded and deepened. Observers often criticized what two academic experts called a "veritable labyrinth" of regulations and controls. As noted, because specific licensing and larger policy decisions had to be taken by unanimous vote at each level, and because higher committees of appeal always seemed to exist, disagreements over the smallest issues were repeatedly escalated to higher forums for resolution. As a senior White House official at the time put it, "Every disagreement above the level of stardust had to come to the President."

II. CHRONOLOGY

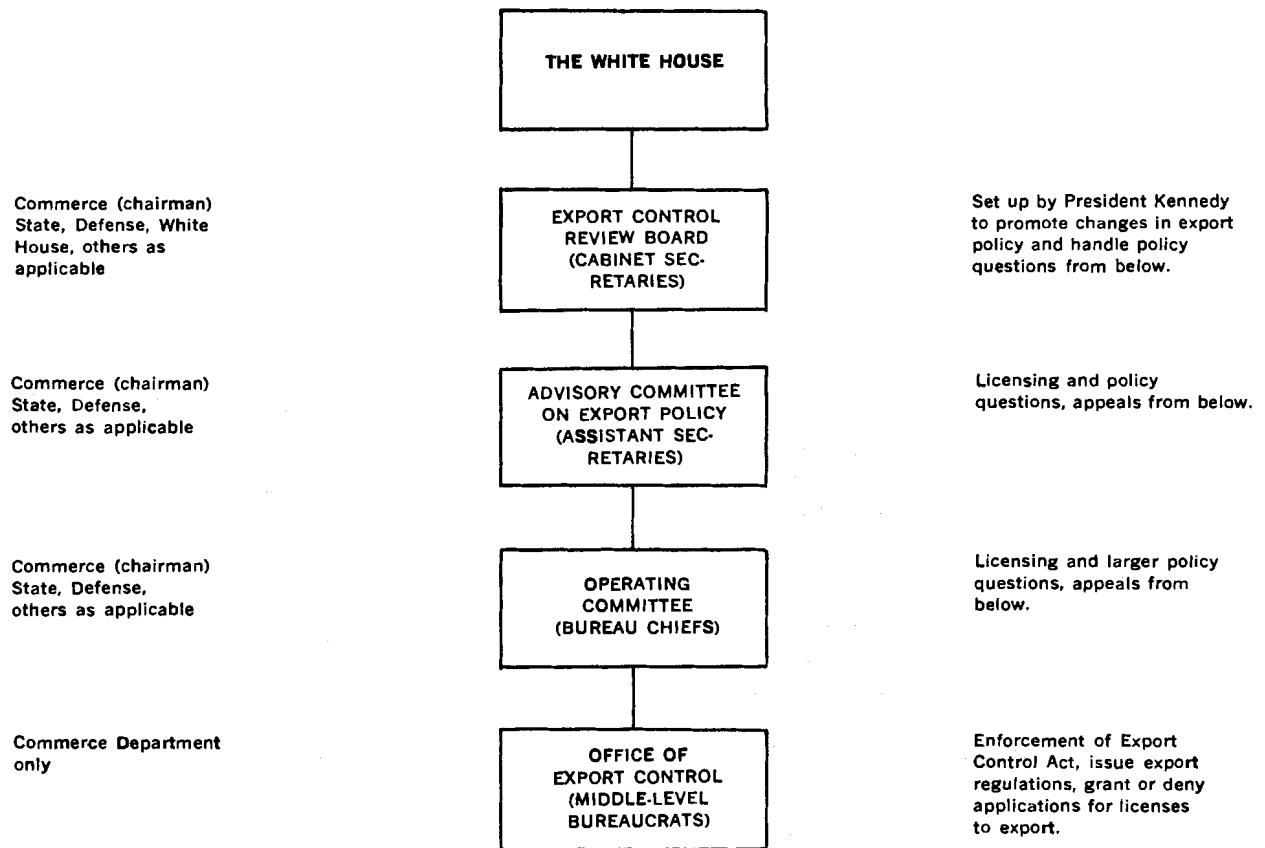
THE DECISION TO CHANGE TRADE POLICY: A NEW ENVIRONMENT

In the last year of the Kennedy Administration, several factors coalesced that resulted in new trade

CHART I.—THE FORMAL ORGANIZATION OF EXPORT CONTROL POLICY

Department Members

Function



liberalization efforts. The most important factor was the President himself. He pushed for political detente, a limited test ban treaty, and sought over-all arms limitation. Kennedy was personally receptive to altering US trade policy, as the sale of US wheat to the Soviet Union in 1963 demonstrated.

Kennedy and the White House staff also grew progressively more frustrated with the export-regulating organization. It was cumbersome, always at internal odds and incapable of resolving policy differences at appropriately low levels of debate. One result was the establishment of still another high-level export review committee. This was the cabinet-level Export Control Review Board (ECRB) of Commerce, State and Defense, with Commerce Secretary Luther Hodges as chairman. The panel was asked to recommend new initiatives in trade policy as well as to serve as ultimate policy arbiter in the area of export controls. Its real effect was minimal, however. The level of decision was raised from Assistant Secretaries to cabinet officers but the same difficulties in reaching agreements persisted.

Late in 1962 or early 1963, for example, at a regular meeting of the National Security Council, the President became unsuspectingly embroiled over a question regarding the export of two six-row beet harvesters to the Soviet Union. The sale, some argued, would give the Soviets both new technology (they possessed only four-row harvesters) and greater self-sufficiency in sugar, which Moscow might then seek to export to the detriment of American commercial interests. Kennedy could not understand why such an issue had come before the NSC for resolution.

Coincidentally, by 1962-63 several high-level personnel changes in the State Department placed considerable economic expertise at key pressure points in the government. George W. Ball, Under Secretary of State, was delegated virtually complete operating responsibility for economic affairs by Secretary Rusk. Ball had both experience in, and concern for, East-West trade. He was deeply involved in the Kennedy Round trade legislation.

Late in 1961, Philip Trezise became Deputy Assistant Secretary for Economic Affairs. Trezise

strongly favored enlarging East-West trade ties in non-strategic goods. In addition, he brought a powerful dislike for the continuous bureaucratic infighting that suffused US trade organization. Also at State, Edward R. Fried joined the Policy Planning Council. Fried was a trained economist with a long-standing interest in commodity policy and a desire to change the existing system. His interest was shared by Andreas F. Lowenfeld, the Deputy Legal Advisor. In later 1962 Trezise, Fried and Lowenfeld formed an ongoing, informal alliance to push for liberalizing import and export policy.

In the White House, moreover, Presidential Assistant McGeorge Bundy was also sympathetic to change. Bundy had quick access to the President as well as the enormous authority of the President's name.

Senior level personnel of virtually all other agencies, particularly Commerce and Defense, opposed changes in trade policy. Their position, notably, was not generally held by most of Kennedy's cabinet secretaries, who shared the President's view of the need to relax trade restrictions. But the sum of each agency's concern over its export licensing task, its involvement with—and thus commitment to—implementing restrictive policies, and the case-by-case milieu in which trade issues were regularly debated in committee, all militated toward static trade relations with East Europe and the Soviet Union. In the absence of sustained counter-pressure, US trade policy could not move from its established directions.

THE DECISION TO CHANGE TRADE POLICY AND TRADE ORGANIZATION

By the fall of 1963, United States policy was moving in ambiguous ways. Publicly, President Kennedy maintained his support for trade restrictions against the "bloc" countries. Undersecretary Ball and other senior officials regularly protested allied enthusiasm for trading with East Europe.

Privately and more importantly, however, Ball and Ambassador Llewellyn E. Thompson were quietly negotiating the sale of \$250 million of American wheat to Moscow. On October 9, 1963, President Kennedy announced agreement on the wheat deal. Although he defended it against anticipated criticism by saying it "doesn't represent a new trade policy," in effect, this was a major change of direction.

The wheat deal touched a barely hidden American nerve opposed to "trading with the enemy." Vocal union opposition led by AFL/CIO President George Meany surprised the White House. Secretary of State Dean Rusk defended the arrangement as "traditional Yankee trading," but still couldn't dissuade US teamsters and stevedores from threat-

ening to boycott ships carrying American wheat to the Soviet Union.

That Kennedy was serious in his desire to change policy is clear from other less public acts. Two months before announcement of the wheat deal (on August 9) a secret memorandum had been sent to the President by his Export Control Review Board. It called for closer study and preparation of new trade overtures toward the Soviet Union and East Europe. In mid-September, the President responded sharply by calling for more energetic action than the memo suggested. He wanted US export licensing policy to reflect relaxed relations with Moscow. He also approved a proposal to prepare guidelines for a step-by-step expansion of trade with individual East European states. Equally important, the President refocused the policy-making process itself. In a White House memo to the ECRB late in October, the President appointed the State Department as primary coordinator of subsequent East-West policy. Implicitly, he shunted aside the Commerce Department and the ECRB in favor of a new team, whose members came from various departments within the State Department.

After Kennedy's assassination, President Johnson accelerated new trade initiatives.

THE INITIATION AND CONCLUSION OF TRADE TALKS WITH RUMANIA

In 1963 the government of Rumania under First Secretary Ceausescu had begun to resist Soviet efforts to direct its pattern of economic development through the Council for Mutual Economic Assistance (COMECON). Rumania was to concentrate on agriculture and oil refining. Rumania balked.

Unexpectedly, early in 1963 a cable arrived from the US Legation in Bucharest. It asked if anything could be done to aid Ceausescu. Trezise and Fried responded immediately. The idea of engaging Rumania through trade talks, presumably drawing her away from the Soviet orbit, surfaced rather quickly. Fried wrote a Policy Planning Council paper describing how to open trade ties with Bucharest. The two then induced W. Averell Harriman, the Undersecretary for Political Affairs, to personally take the matter on. Harriman readily agreed. The White House apparently supported the move and, although formal organized approval was not received, Bundy was probably well aware of the matter. Harriman became the spokesman and negotiator, and Trezise became the "action officer" to work out a trade arrangement. Talks were to start May 18, 1964.

The significance of this move cannot be overemphasized. For this trade initiative to succeed, the legal and organizational restraints on US exports to

Communist states would have to be altered. Since Bucharest had to sell its own goods to earn hard currency to purchase US items, the negotiations ultimately turned on granting Rumanian goods MFN status. This, however, was forbidden by Congress by the Trade Agreements Act of 1951 (as amended).

From January to May 1964, Trezise and Fried fought Commerce and Defense to arrive at an "agreed" list of exportables—goods the US would permit its exporters to sell to Rumania. The arguments in the Advisory Committee, on Export Policy, which served as the working group for this export policy question, were incessant. Given the presidential mandate, Trezise felt able to ask for White House intervention. On at least one occasion Bundy called Defense Secretary Robert McNamara (who favored the initiatives) to have him reimpress the President's intention on his bureaucracy.

The State Department group also proposed that Washington ask Bucharest for a "shopping list" of goods it wanted to buy from the US. It wanted this indication before the talks began, in order to hammer out a firm US policy toward specific categories of goods, and to settle interagency differences before opening day. The White House agreed with this idea (although who approved, and how, is unclear). Rumania subsequently submitted a list containing 15 categories of goods. After much debate, 10 of the 15 categories were approved by the Advisory Committee—on the day talks began.

The Rumanian delegation was headed by Gheorghe Gaston-Martin, Deputy Premier and chief of the very important State Planning Committee. The talks lasted two weeks. On June 1 Washington agreed to let Rumania buy "most commodities" without special ("validated") export licenses. Two weeks later President Johnson declared the Export-Import Bank ready to guarantee financing through credits of up to five years. Washington even provided letters of introduction to American producers. Still, Washington couldn't guarantee entry of Rumanian exports into the American marketplace on favorable terms, although frequently pressed at the talks to do so. This was the MFN question.

THE DECISION TO ESTABLISH THE MILLER COMMITTEE AND TO SUPPORT ITS CONCLUSIONS

From the time he took office, President Johnson staked out a policy that came to be called "bridge-building" toward East Europe and the Soviet Union. The policy was geared to taking reciprocal steps in various areas, from cultural relations to non-proliferation of nuclear weapons agreements,

in order to diminish the chances of East-West conflict.

On March 7, 1964, for example, before the arrival of the Rumanian trade delegation, the President stated the US would be willing to explore easing trade curbs with East Europe. On April 16, he held an expanded National Security Council meeting to discuss trade overtures with East Europe. He followed this NSC meeting with remarks welcoming new trade ventures at a regularly scheduled press conference.

To some extent, the President may have been moved toward this viewpoint by a few of his White House advisers, who were instrumental in establishing a pre-election Task Force on Foreign Economic Policy, headed by Carl Kaysen. The Task Force subsequently called for increasing East-West trade.

International events encouraged presidential action as well. Pressure in West Europe to grant long-term credits to East European states was increasing. Washington, to its dismay, and to the apparent frustration of the US business community, saw its allies begin to capture East European and Soviet markets. Efforts to discourage the allies from trading and from extending long-term credits were largely unsuccessful.

The key move came from the President himself. He decided, quite possibly at the urging of McGeorge Bundy, to set up a special presidential commission to study increasing East-West trade. The committee would be composed of hard-headed businessmen and chaired by J. Irwin Miller, Chairman of the Cummins Engine Company of Columbus, Indiana. The President clearly felt the need for an independent, highly visible contribution to the trade debate. He saw the advantages to bringing in non-committed outsiders with the authority of professionalism and distance from bureaucratic conflict. To some extent, the move was also a signal to his own bureaucracy and to Congress, indicating presidential commitment.

Early in 1965, the President asked Bundy to establish the committee. How Miller's name first surfaced is unclear. Bundy knew him as a strong personality within the Yale Corporation, of which Miller and Bundy were members. Bundy called Edward Fried at the Policy Planning Council, probably on the suggestion of Francis Bator, an economist who had joined the White House staff in the spring of 1964, and asked Fried to become staff director of the so-called Miller Committee. (By 1965, Bator regularly assumed most of the responsibility for international economic matters in the White House.)

Fried met with Bundy and Bator, readily accepted, and, with Bator, drew up the terms of reference of the committee. On his part, Miller easily

approved Fried, whose background and interests made him the ideal choice as executive secretary. James A. Henderson of Cummins Engine was brought in by Miller to be deputy executive secretary to the committee. On February 16, 1965, with the 12-member committee still in formation and a full-time staff of two, the President formally appointed the *Special Committee on United States Trade Relations With East European Countries and the Soviet Union*.

The White House tried hard to obtain labor's participation in, and support of, the Miller Committee. In this it was largely unsuccessful. Meany was asked to serve, but given his (and the AFL/CIO's) longstanding public opposition to expanding East-West trade, he refused. Meany permitted Nathaniel Goldfinger, Director of Research of the AFL/CIO, to join the committee—at best a compromise gesture to the White House on labor's participation. Goldfinger was compelled to take a hard line in public by the labor leader.

When the final report was written, Goldfinger had inserted a "Statement of Concern" at the bottom, expressing the view that the report didn't take into sufficient account the political aspects of trade with Communist states, and that national security policy should not be weakened by seeking "temporary or marginal commercial advantages."

Congress was not represented on the committee for several reasons. First, the White House felt it would be premature to bring in the legislative branch when no policy and no legislation had been formally developed. There was also a feeling that Congress might find it easier to respond to a clear position paper, authored by hard-headed businessmen, and sanctioned by the President. Finally, the legislative branch does not traditionally serve on presidential committees of this kind, and the White House chose not to break with past practice.

Three weeks after the Miller Committee was set up, Bundy issued a National Security Action Memorandum (NSAM No. 324) telling relevant agencies what was happening and asking for their cooperation and suggestions. NSAMs were broad-ranging White House directives which often outlined a course of action and fixed personal responsibility and deadlines for follow-up activities.

Miller and Fried visited each relevant Cabinet Secretary at least once. McNamara was seen twice. They assured each Secretary they would return to discuss the draft report when it was completed. One interesting discovery was that every Cabinet Secretary except the new Secretary of Commerce, John T. Connor, favored the relaxation of trade barriers. Connor was lukewarm at best. In a way, the governmental "chiefs" were in favor; it was the "indians" who were opposed, for different combinations of ideological, professional and personal reasons.

Congress was, at most, informally aware of the committee's work. Almost no discussion occurred between Miller and Fried and individual Congressmen. According to one close participant in the process, no clear position existed on East-West trade and no piece of legislation was at the time being proposed. Accordingly, there was "nothing to go with" and Miller did not see his work as part of a "sales campaign." At the same time there was some concern that premature discussion in Congress might stir adverse reaction among its members, thus hurting the chances for a well-received final report.

In this time of discussion and writing, Fried had assistance from Lowenfeld, from Robert Wright and Julius Katz, of the Office of International Trade, and from Philander Claxton of the Office of Congressional Relations. They pulled together pertinent, historical, economic and political information for the Miller Committee. During March presentations were made to the full committee by each concerned government agency, including the CIA. Position papers were kept to a minimum. Briefings would last full days and they were well attended.

After the report was drafted, Miller and Fried revisited all the cabinet chiefs. Late in March, Miller, Fried and Henderson met with the President, Ball, Bator, Bundy and McNamara to discuss their findings and conclusions. The President received Miller well. According to one White House official, Miller was the perfect choice for the job all along. "He was an admirable presidential commission chairman because he perceived correctly that the object . . . was to produce results that are useful to the President." This is not to sell Miller short, however. His conclusions were arrived at independent of presidential desires and were a reflection of two months of hard, determined work.

ELABORATION: THE FINDINGS OF THE MILLER COMMITTEE

The Miller report marked a threshold in the formulation of East-West trade policy. It capped three years of internal discussion, debate and hesitant moves toward trade liberalization.

The Miller report, largely written by Fried, laid out all the issues, summarized the history and recommended clear-cut, unifying policy directions. (The report was printed as "Report to the President of the Special Committee on US Trade Relations with East European Countries and the Soviet Union," Department of State, April 29, 1965.)

The most important of the committee's 14 recommendations was a call for legislation granting the President discretionary authority to negotiate

and grant MFN treatment to Communist states for select periods of time.

THE TRADE BILL IS WRITTEN, PROMOTED AND DROPPED

At the end of April 1965 the draft Miller report was ready. On the 29th the committee met with the President and the cabinet. The President was particularly concerned over a possible adverse reaction in Congress and wanted Miller to go straight to Capitol Hill to discuss the report's conclusions and recommendations for MFN legislation. Miller was preparing to do so anyway. On May 2 he saw Senators Fulbright, Mansfield and Hickenlooper. He also contacted Wilbur Mills to alert the congressman that legislation granting the President greater discretionary power over MFN was a key recommendation. Mills' Ways and Means Committee would handle trade legislation in the House. On May 5 Miller talked with Mills about the recommendations and the possible public issuance of the report.

Within the Executive branch, the sailing was somewhat rougher. Commerce Secretary Connor and Under Secretary of State Mann opposed the public release of the report. The two were overruled by the White House, and on May 6 the report was released with considerable fanfare.

The next day Bundy formed a State/Defense/Commerce committee to follow up the report and to recommend the next steps. The committee was deliberately structured by Bundy and Bator to keep it out of the hands of Commerce—which they felt could not be trusted to press for implementation. One week later Bundy issued a National Security Action Memorandum (NSAM No. 333) which formally established the follow-up committee and assigned responsibility for drafting an East-West trade bill along the lines of the Miller report to the State Department. Deputy Assistant Secretary Solomon (about to become Assistant Secretary) became the "action officer." Bundy and Francis Bator would oversee the job.

For one brief period in the spring of 1965, Fried, Trezise, Lowenfeld and Wright, among others, felt that legislation giving the President greater MFN discretion might have passed. Bator agreed, subject to a strong push by the President, if the latter chose to do so. To some extent, this viewpoint derived from the euphoria of finally completing a hard task over a long period of time. Furthermore, the report was well received by the President and the media, which raised hopes of favorable legislative action. In hindsight, however, this was probably a case of wishful thinking.

Bator polled the relevant agencies late in June, and concluded that all but Commerce were ready

to push for legislation. Under Secretary of State for Economic Affairs Thomas Mann and, to a lesser extent, even Connor, had begun to come around and were prepared to push hard for legislation. A sense of urgency hung over the report. In less than a month, a bill was drafted. Much of the work had been done earlier, by Lowenfeld, Fried and Trezise. By early June, the standard package was assembled for Secretary Rusk—a substantive memorandum about the problem, backup studies, a policy recommendation statement, and a draft statute.

The bill, which would have authorized the President to negotiate MFN status with Communist states of his choosing for a three-year, renewable period, did not go to the White House for action. That it did not go to the White House reflects, in part, the numerous competing priorities on the Secretary's time, as well as his skepticism that the bill could in fact succeed. Also, others in the Department and in the White House were testing congressional and public sentiment. While this was occurring the chances of passage became more and more remote.

By mid-summer, conditions had altered radically. Serious foreign policy problems with the Communist world broke out. Early in 1965 an upheaval in the Dominican Republic heightened fears of Communism in the Western Hemisphere. The Vietnam War was heating up and that summer the President was faced with crucial troop build-up decisions. Despite the President's determination to keep the war separate from his efforts toward detente, the two could not be easily separated in the mind of Congress, labor and the public.

Most important, the summer of 1965 was a time of great domestic initiative. Great Society legislation claimed first place in the President's priorities. Any bill which might derail this objective was scrutinized very carefully. According to one senior presidential advisor, MFN legislation "became a question of the President's own time and I feel comfortable that the reason it got delayed . . . was that he didn't want to encumber his '65 legislative program with anything new, unprepared, congressionally unprepared (or) controversial." As a key State Department figure put it, President Johnson "turned the key" on these matters. When it came to legislative strategy, the President took a most specific hand. The President himself would decide whether or not to go for trade legislation and, if he chose to go for it, what the strategy would be.

Late in July the President backed off. He concluded that the domestic legislative load was too heavy to bear the additional burden of MFN legislation. The President would hold off on the bill. On the Senate side there was a slim chance that the

Foreign Relations Committee would hold hearings, since Senator Fulbright, the chairman, favored the legislation. In this event, the White House agreed to strongly make the East-West trade argument. (There were even some discussions between Senator Fulbright and the White House about the Arkansas Senator introducing the Administration bill. This he apparently decided against doing.) This pullback was affirmed at a secret meeting between Mann and Under Secretary of Commerce Roosevelt with a few powerful, pro-trade Democratic senators early in August.

In the House, the major obstacle was Congressman Mills. Anthony Solomon bore the brunt of the lobbying job, since he and Mills knew each other well. At first, the congressman was not unreceptive to the idea, and Solomon worked on him continuously. In the fall, however, Mills told Solomon that hearings were impossible that year. His legislative calendar was very full and he felt the timing of the hearings—just before mid-term elections—would elicit negative reaction from several important congressmen and from the electorate. Throughout the fall, nevertheless, Solomon and others stumped the country advocating trade legislation.

By the new year the original State Department legislation was still in State. Mann opposed it. Even Under Secretary Ball turned negative, partly on the direct counsel of Senators Mansfield and Fulbright. The two Senators and Ball now felt the issue wasn't worth a prolonged congressional fight, even if a narrow victory were achieved. They felt the time was inopportune to push for the bill.

Francis Bator, now Deputy Special Assistant to the President, spelled out three options for the President. He could send legislation to Congress in his own name, send it over Secretary Rusk's signature, or let it fall by the wayside. Bator favored the first option, to signal a sustained Presidential commitment to guarantee the subject a full hearing, and to act positively in an area he felt was correct.

In March 1966 the President chose option two—an unorthodox move for international affairs legislation. Concerned over his other legislative proposals and transfixed by the need to maintain a favorable legislative "box-score" (this was his term) he gave up on the bill. Two months later, on May 11, he had Secretary Rusk transmit the proposed East-West Trade Relations Act of 1966 to House Speaker McCormack and to Vice President Humphrey, President of the Senate. By such action, President Johnson recognized that Congress would not sustain a move for MFN legislation. Hearings were never held. In fact, the next day Wilbur Mills announced that hearings would not be held. As one close participant stated, "We just shrugged our shoulders and it died with a whimper."

III. THE IMPACT OF ORGANIZATIONAL ARRANGEMENTS ON THE EAST-WEST TRADE BILL OF 1966

A. Organizational Capabilities

On its surface, the legislative history of the East-West Trade Bill of 1966 is a study in failure. (See Chart II.) Just as the bill saw the light of day it was unceremoniously buried. But the apparent result, failure of a bill to be introduced or hearings to be held, should not obscure three years of determined, often imaginative organizational activity. In retrospect, the activity was substantively intelligent and almost classical in style, especially when established organizational groups and processes, unable to advance new policy, were supplemented by outside individuals.

The present case also demonstrates the importance of accident, the force of personality, and the range of individual commitment needed to push for policy change. Frequently people were in the "right" place at the "right" time. Occasionally, because of accident or individual unpreparedness or heavy workload, people were in the "wrong" place at the "wrong" time. (See the Annex on the Firestone rubber plant agreement.) Organizational capability depends heavily on the individuals that make them up, and individuals make organization charts succeed or fail on their own terms.

AT FIRST, ORGANIZATION WAS INSUFFICIENT TO NEW POLICY DIRECTIONS

Change occurred because new personalities were introduced at key points into the State Department. Their appearance was coincidental with the surfacing of trade questions, but they made the most of their opportunity. Fried had been busy on other matters in the Policy Planning Council. Trezise had been reassigned from a post in Japan. Ball ventured in from his participation in the Kennedy Round. Lowenfeld found the work interesting and was willing to give it time. At the White House, Bundy, understaffed between September 1963 and May 1964 in the area of international economic policy, became involved in the matter. Bator took a progressively stronger role beginning in the late spring of 1964.

These individuals came together at a time when the weight of export control organization was growing progressively more burdensome, and when President Kennedy committed his personal attention to the expansion of East-West trade. He was impelled to alter the organizational setting when the existing machinery could not respond to

CHART II.—THE INFORMAL ORGANIZATION FOR CHANGE OF EXPORT AND IMPORT POLICY

	<i>Moves To Change Policy (Overall)</i>	<i>Write Posi- tion Papers and Memos</i>	<i>Negotiate With Rumanians</i>	<i>Set Up and Work With Miller Com.</i>	<i>Write MFN Legislation</i>	<i>Lobby With Congress</i>	<i>Push for Changed Policy With Public</i>
John F. Kennedy	Ø	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Lyndon Johnson	Ø	n.a.	n.a.	Ø	n.a.	Ø	Ø
McGeorge Bundy	Ø	Ø	X	Ø	n.a.	n.a.	n.a.
Francis Bator	Ø	Ø	n.a.	Ø	n.a.	n.a.	n.a.
Dean Rusk	X	n.a.	n.a.	n.a.	n.a.	X	X
George Ball	X	?	n.a.	?	n.a.	?	n.a.
Averell Harriman	n.a.	n.a.	Ø	n.a.	n.a.	n.a.	n.a.
Thomas Mann	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Philip Trezise	Ø	Ø	Ø	n.a.	n.a.	n.a.	X
Anthony Solomon	Ø	n.a.	n.a.	n.a.	n.a.	Ø	Ø
Edward Fried	Ø	Ø	Ø	Ø	X	n.a.	n.a.
Andreas Lowenfeld	Ø	Ø	n.a.	n.a.	Ø	n.a.	n.a.
Julius Katz	X	n.a.	n.a.	X	n.a.	n.a.	n.a.
Robert Wright	n.a.	n.a.	n.a.	X	n.a.	n.a.	n.a.
J. Irwin Miller	Ø	n.a.	n.a.	Ø	n.a.	Ø	Ø

Ø = major participant

X = minor participant

? = role unclear

n.a. = not applicable

his preferences. Kennedy's first impulse was to establish another cabinet-level committee under the then Commerce Secretary Luther Hodges. Shortly after its establishment, he decided to shift policy-making to an informal group in the State and the White House, and to give it sharper personal attention. The lesson implicit in this stance is that major policy departures often cannot be orchestrated through traditional organizational mechanisms.

There is a second point. A change of organizational focus would not have been meaningful had not competent individuals been present in nontraditional positions. It is particularly interesting that the Soviet, East European and West European desks and, to some extent, the economic desk at State, were not numbered among the advocates of new policy and were not selected to orchestrate the change. The central actors had a wide range of experience and none came from within the East-West trade milieu. They were "outsiders" on the inside, in both background and organizational position.

The "new faces" fit well into the new policies advocated by President Johnson. During 1964-66 numerous initiatives were taken which revealed the President's determination to ameliorate Cold War tension. Among these steps were easing Export-Import Bank restrictions on loans and credits to East Europe, upgrading legations to full ambassa-

dorships, moving vigorously toward establishing grounds for a non-proliferation treaty with the Soviets, moving (less publicly) toward strategic arms limitation and engaging the Soviets through summit diplomacy (Glassboro). Essentially, then, the decision to write and promote East-West trade legislation was only one of many complementary White House efforts to encourage detente with the Soviet Union.

NEW ORGANIZATION IS ADEQUATE TO POLICY NEEDS

A critical mass of individuals was in place and alert to opportunity—such as the Bucharest cable. Trezise and Fried slipped around standard operating procedures by elevating the issue to include Harriman. They knew his personal stature was an important asset. They did the background work to ensure a successful conference.

The staff levels at the Departments of Commerce and Defense resisted in their traditional *ad hoc* fashion. Instead of opposing trade talks in principle, they fought each category of goods on a case-by-case approach. That they could not stop an agreed list was due to direct presidential involvement. With the arrival of the Rumanian delegates, some positive results were virtually certain. The group

couldn't go home empty-handed without a severe blow to the general progress of limited detente. Internal momentum was too strong to have the talks end in failure. At this point the peculiar politics of personal visits favored the innovators.

PRESIDENT JOHNSON'S POLICIES DEMAND A SPECIAL COMMITTEE

With trade talks successfully concluded, it was logical to take another step—movement toward MFN status for Communist states. The President concluded that no internal group could successfully attack the import side of the trade coin. He also knew he would need outside support for whatever initiatives might follow the Rumanian talks. It was also clear that future initiatives, via legislation or otherwise, would need “impartial” support from big business. The President, Bundy and Bator thus chose the Miller Committee deliberately. They wanted a small, respected group with a very small staff. They selected hard-headed, middle-of-the-road businessmen with high credibility. (The one labor representative that they could get, Nathaniel Goldfinger, was important for the light he shed on big labor's negative position.) After the Miller report, the White House decided to move promptly with MFN legislation.

That the President chose to establish the Miller Committee offers an intriguing—but not unique—approach to making a controversial idea respectable and attractive. The committee served to expand the debate on East-West trade at the President's option, while also functioning as an impressive body of senior businessmen whose opinions carried some political weight. Thus, by using the Miller Committee to educate, impress and confer respectability, the White House acted intelligently—but outside “formal” channels. Policy changes may well be advanced when outside, “impartial” committees are appointed at key points to impress Congress and the public. Changes might further be advanced when the work of the group is clearly delineated and circumscribed. The narrower and more direct the subject of interest, the greater the likelihood of a responsive document favoring a president's wishes.

THE STATE DEPARTMENT ORGANIZATION IS PARTIALLY, THEN FULLY, SUPPLANTED BY WHITE HOUSE INVOLVEMENT

After the Miller Committee report the President called for and promoted an East-West trade bill. The focus of activity shifted to Congress. Much of the preparatory work had already been done in State. Several draft bills had been written in earlier

years. The decision to ask for three-year, renewable MFN treatment at the discretion of the President was made because the White House and the State Department felt a three-year term was reasonable and might also be acceptable to Congress. Less than three years was seen as insufficient time to have trade ties develop; more than three years was perceived as too long a time to maintain MFN as a useable political tool.

The primary reason for the demise of the bill was a set of conditions in the President's total program which were external to the bill itself. East-West trade was only one of several matters of interest within the Great Society legislative program, and one not of the highest priority. The President, who very much needed Wilbur Mills on Kennedy Round legislation, was continually pruning and sharpening his Congressional program. East-West trade became one of the prunings.

Further, the international situation was deteriorating. The Vietnam War complicated East-West trade possibilities, though the complication was more in Congress than between trading partners. Even though the President sought to disassociate the conflict from other international questions, and to obtain Soviet cooperation in Indochina, he could not isolate East-West trade matters on Capitol Hill. This distinction is important since the Indochina conflict did not, as is commonly held, dissuade the President from acting on East-West trade. Instead, the war had a “round the corner” effect. Although the President could disassociate the war from other international questions, by 1966 public opinion and Congress could not. In this sense, it was they who stopped the bill, not the President.

The decision to defer introduction of the bill in the summer of 1965 was a presidential decision to let it die. By the fall of 1965 it was clear Congress would not act anyway. Mills told Solomon he would defer hearings at least through the beginning of the year.

By the new year there was little hope left. President Johnson's congressional temperature-taking made him see the point clearly. With one eye on the running box-score, and the other on the rest of his legislative calendar, the President finally gave up on the bill. He used Secretary Rusk as the intermediary in the process. The Secretary's letter to Congress meant that no action, in fact, would be taken.

Once having gone this far, however, it was unfitting and impossible to stop completely. The submission of the bill to Congress by Secretary Rusk was a genuine, if second-best, act. Indeed, Secretary Rusk and others actually thought hearings would be conducted, though it was clear that passage would not follow.

B. Other Considerations

THE IMPORTANCE OF AVAILABLE INFORMATION

Sufficient economic information was available, although it was not central to executive or congressional deliberations. In strictly economic terms, no hard cost-benefit analysis occurred. American trade with East Europe and the Soviet Union was microscopically small, as was trade from the Communist "bloc" states with the United States—a fraction of a percent of overall trade in either direction.

East-West trade was, first, a matter of political importance and, only second, one of economic costs and benefits. As such, more information on the economic merits would have been useless, unless it had been sufficiently dramatic to overwhelm the weight of the political drive for "new bridges" to the East.

POSSIBLE ALTERNATIVE COURSES OF ACTION

It is easy to speculate that such efforts could have stalled or speeded up on the basis of different organizational goals. Most such speculation is unrewarding, although it does give clues to the adequacy of government organization. The State Department was fragmented in its own support for the bill. Those favoring trade were not from the line geographical areas of Europe, the Soviet Union, or East Europe. Had Rusk personally, or Commerce or the Pentagon supported trade initiatives, much more probably could have been done. But all agencies and their internal operating departments work on their own agendas, and the internal bureaucratic lock-step of routinized activity and political conditioning makes joint action the exception, not the rule.

Repeatedly, this case study shows the importance of informal channels of organization and close personal relationships, without which any trade initiative would surely have failed.

THE IMPLEMENTATION OF THE GOVERNMENT'S DECISIONS

The government's decisions were generally taken with considerable directness and clarity, but not always through established State Department or interagency channels. Commerce's opposition to an overall list of export commodities was one example of direct obstinacy. But to presume the middle-level bureaucracy would act contrary to 20 years of commitment and experience would be a heroic assumption indeed.

Implementation, then, depended on the vigilance of individuals in the White House and the State Department, when they were not overloaded

with other compelling, legitimate demands on their time.

Soon after the decision to appoint the Miller Committee, the White House role increased markedly. This sheds some light on the central attention which must be given to develop controversial pieces of legislation. If the various government bureaucracies, the public at large, and the Congress itself cannot be orchestrated rather easily, then greater White House energy must be expended. In the case of East-West trade, none of these clusters of interest was united.

THE INFLUENCE OF EXTERNAL GROUPS

1. Business

American business was not nearly so anti-trade as was generally presumed. Even before President Kennedy's surprising announcement of the US-Soviet wheat deal in October 1963, American business had begun to lean toward lowering trade barriers. In later April 1964, an unexpected initiative came from the US Chamber of Commerce. The Chamber voted a resolution urging the government to cut back its list of items barred from sale to East Europe. It called for a level of trade equal to that of the Western allies. The Chamber's resolution was a milestone of changing opinion in the private sector.

The policy preferences of American big business generally corresponded with the President's own views. Given its biases and natural desire to expand trade, the government was laggard in further exploiting business support to its mutual interests. The Firestone deal suggests how close a conservative business had come toward responding to East-West initiatives. The potential energy of the business community seems to have been ineffectively channeled.

2. Labor

Organized labor took a strongly ideological view toward East-West trade. George Meany denounced the wheat deal, and the stevedores and teamsters periodically threatened boycotts. In a sense, organized labor's influence was critical. In concert with right-wing public opinion, its impact was so pervasive that MFN legislation was a matter of considerable doubt from the moment the idea was raised.

The White House tried hard to get high-level labor participation on the Miller Committee. In this, it was unsuccessful. Meany had gone on record as opposing East-West trade as he regularly did at annual AFL/CIO conventions. Goldfinger was big labor's compromise with the committee and he was neither powerful within the labor movement nor

influential within the committee. Subsequently, when the trade bill was promoted, some attempt was made to bring labor aboard. Bator even obtained a letter from the United Auto Workers supporting increased trade. Nevertheless, big labor could not be won over to the Administration's position.

3. Public Opinion

An unwritten, subtle alliance between organized blue-collar labor and conservative groups and individuals emerged after the wheat deal. This arrangement underlay, and always threatened, any move to liberalize East-West trade. By 1966, 24 cities and two counties in Alabama, Florida, South Carolina, Louisiana and Kentucky had passed ordinances prohibiting the sale of "Communist" goods. The thread of right-wing vigilantism runs through the history of the government's efforts to lower trade barriers.

The White House and State Department had neither organized nor regular contact with these groups. Such ties, of course, might well have had no positive effect, but the fact remains that little effort was made to press the case in conservatively oriented forums.

IV. CONCLUSIONS

The Executive branch performed more than adequately in organizing itself to deal with East-West trade. It gathered the necessary resources, implemented a variety of sub-decisions, prepared legislation, and then decided to guardedly move away from full backing of the bill. It acted through a combination of formal and informal structures, the latter supplementing the former when they lagged. Individuals in the State Department, not sub-organizations, handled the issue until it became a matter of considerable public attention. Then State and the White House moved to center stage. The White House cooperated, then coordinated, and ultimately disposed of the bill.

It can well be argued that the State Department needed more substantive grounding in economics and international economic foreign policy-making and that this capability should have had wider influence within the Department. In the present case, those involved did well. But the fact that a few individuals were placed at appropriate decision points does not reflect well on the organization of the Department. This study suggests the economic "bench" supporting the State Department team was exceedingly thin. Beyond a few big league performers, there was very little else in the bureaus or special sections. Thus, in order to implement big

policy initiatives, the White House had to go around standard operating procedures and take direct hold of the foreign policy machinery. This is just what Trezise, Fried and Solomon did in their own way to advance their cause within State.

More positively, the small group of well-placed, well-regarded professionals in State was able to make much out of a piece of work that could just as well have not gone very far. In part, their success derives from presidential interest, from the fact that longstanding interagency trade policy groups were mired in dispute, and from the fact that *ad hoc* arrangements among like-minded participants had to suffice. There was a further advantage. They were close enough to high level policy makers to be involved in the substantive detail of East-West trade. They looked both ways in their dealings with the bureaucracy.

Withal, the formal methods of departmental problem solving on East-West trade (as well as overall level of organizational interest) did not work well. There was a minimal level of responsiveness, but insufficient strength for sustained policy initiative. That said, it is impossible to conclude from this case that "better" State Department organization would have led to the passage of the trade bill.

On a wider plane, there is the problem of interagency coordination. Few permanent coordinating mechanisms ever work well over the long haul. The more rigid and structured the groupings become, the less service they render.

From spring 1965 to spring 1966 the White House took a larger advocating and coordinating role. McGeorge Bundy and especially Francis Bator acted as traffic manager, memorandum-writer, initiator, and orchestrator of other agencies. This role appears especially necessary. When policy moves toward execution, no single cabinet department can lead the fray. Indeed, movement toward the White House denotes increasing saliency of the issue, and increasing importance to wider groups. When this happens one individual or a few individuals should quite likely take charge. Bator called this power the "authority to hold the ring."

This study suggests that the President also needs a problem detector, the equivalent of a government-wide early warning system. When troubles or opportunities arise among agencies, or outside the government organization, that individual in the White House must be present to probe and to prod agencies into action. The White House individual may well have more acute sensors because of a broader purview, wider responsibility, and a higher level of official and unofficial contacts.

It would thus be wrong to conclude the State Department can completely coordinate or compel the coordination of foreign policy. Its range of au-

thority is still too limited, its span of attention is never long enough. What one suspects is that a State Department with greater responsiveness to presidential concerns, and the capability to deal with them, and a small White House staff willing and able to assist, provoke, defy, deny, reject and argue various policy alternatives to the President and his agencies is an appropriate balance of organization.

This model of foreign policy-making presumes that much of the analysis and implementation, and

a good part of the recommendatory work, should remain at the State Department. It also presumes some initiative and most of the highest level inter-agency coordination should lie in the White House. The present case fits this model well, but it also suggests that established bureaucratic channels and organizations cannot be counted on to carry the burden of policy innovation. This must come from a mix of "outsiders" within established organizations, and "insiders" formally outside of established government channels.

The Rumanian Trade Fiasco and the Organizational Weakness It Suggested

In December 1964, six months after the end of trade talks in Washington, the government of Rumania signed a preliminary contract with the Firestone Tire and Rubber Company for the firm to construct a \$40 million synthetic rubber plant. This marked the first direct entry by US private industry into East Europe in two decades.

The Firestone agreement crashed in failure and embarrassment. Shortly after the plan became known, local consumer boycotts, spearheaded by the ultra-conservative Young Americans for Freedom, were instituted against Firestone products. The boycotts received considerable media attention and were extremely effective. Possibly more insidious was the approach taken by Firestone's prime competitor, the Goodyear Tire and Rubber Company. Even though Goodyear didn't bid on the rubber plant project, it had a clear point of view on the subject. An article in Goodyear's house organ early in December, "An Order Goodyear Didn't Take," argued against the deal in powerful ideological language. For example, the article said "some things are more important than dollars . . . you can't put a price tag on freedom. . . ." Goodyear denied stimulating the publicity, as it denied supporting the YAF boycott.

On April 20, 1965, Firestone decided to pull out. Raymond C. Firestone, a senior officer in the firm, came to see Thomas Mann, now Under Secretary for Economic Affairs. Mann had never been sympathetic to opening East-West trade relations. He had "some reservations" about initiating trade ties which could not easily be stopped at some later point. In the Firestone case, Mann's sympathies, and his overall involvement in earlier discussions, were not high. Mann briefly saw Secretary Rusk on the matter. Rusk apparently agreed to accept without State Department resistance or protest the anticipated withdrawal by Firestone.

Firestone visited Mann at State. He said the company could not take the heat of a consumer boycott and felt uncomfortable with the adverse publicity then being generated. Firestone would pull out, claiming "technical difficulties" and the negative public relations campaign in progress in the United States. Further, Firestone would emphasize that the

State Department had no objection to the sale, were it possible to bring off.

On July 25, 1965, the Firestone decision became known. Senator Fulbright, long a proponent of East-West trade ties, publicly charged "unusual competitive pressures" and "a nuisance boycott campaign" by YAF had blocked the agreement. He asserted there was a "curious reluctance . . . to give Firestone . . . strong support against these pressures." The State Department and the White House were criticized in the press for sanctioning the withdrawal.

Firestone's decision to pull out came at a time when the State Department was particularly vulnerable to unexpected events. The spring of 1965 was a time of personnel change and distraction. Trezise had word he was being transferred to Paris. His successor as Deputy Assistant Secretary (and later, as Assistant Secretary), Anthony Solomon, who had wide experience in Latin American relations, was repeatedly seconded by the White House to serve with a special group assigned to deal with the Dominican Republic upheaval. Fried was in Columbus, Indiana, with Miller, working on the committee report. Rusk and Mann had spent little time on the issue from the outset.

A number of senior participants and observers at Mann's meeting with Firestone believe that Firestone's real intent was to have his morale boosted and his decision caressed, not to have the withdrawal ratified or encouraged. Instead, Mann quickly acquiesced to the idea of a pullout. It is not clear whether Mann did not perceive the White House line and took a weak position with Firestone because the White House signal was too weak, or because he was opposed to the signal. Probably there was some of both elements, plus an unfortunate period of State Department distraction. The explanation of a senior White House staff member that the incident was a "dropped stitch" seems accurate. The State Department was caught flatfooted by the Firestone affair. Insufficiently attentive to a domestic political problem of large dimension, it was unable to respond vigorously when the need arose.

That the Department learned its lesson can be

seen in its aggressive, unified action in October 1965, to an anticipated boycott by right-wing groups of American tobacco firms using Yugoslavian tobacco. The six major tobacco companies were called to the State Department on several occasions. They were repeatedly told by Solomon and others that they would have all the support they needed to defend against a boycott. George Ball

publicly decried the boycott as "absolutely unacceptable intimidation" on the *Face The Nation* TV program in late September. And in mid-October, an unprecedented open letter by Secretaries Rusk, McNamara and Connor, denouncing the idea of a tobacco boycott, was issued with much publicity by the White House. The boycott was stopped in its tracks.

An Analysis of the Office of the Special Representative for Trade Negotiations: the Evolving Role, 1962-1974

Anne H. Rightor-Thornton
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INTRODUCTION

This paper traces the establishment and evolving role of the position and the Office of the Special Trade Representative (STR) from 1962 to 1974. The STR is assessed within the context of its past performance and potential effectiveness as an organizational structure to conduct trade negotiations within the GATT framework.

The organization of this paper is unique in this publication; by design it is not a case study of one decision, but rather a study of an organizational entity. Moreover, the role of the STR has been determined less by a series of identifiable decisions than by three other major factors: (1) the personality of the individual holding the position of STR; (2) the current organizational, political, economic, and social environment; and (3) the management style of the President in office. For this reason the paper focuses on identifying and studying factors (1) through (3) rather than individual decisions.

ABSTRACT

The position of the Special Trade Representative for Trade Negotiations (STR) was authorized by Congress as part of the Trade Expansion Act of 1962 to provide a better focus on trade policy priorities. Before 1962, U.S. multilateral trade negotiations were conducted with State as the lead agency, assisted and guided by an interagency committee.

The Special Representative for Trade Negotiations is appointed by the President with the consent of the Senate and serves as chief U.S. representative

for each of the negotiations conducted under the Trade Expansion Act of 1962, and for other such negotiations designated by the President.

The Office of the STR was established by Executive Order of the President and is located in the Executive branch. A key function of this office is to chair an inter-agency committee dealing with trade negotiation issues and to make recommendations to the President on basic trade policy.

The role and prestige of STR over its twelve-year history has vacillated from the early "euphoric" days of the Kennedy Round of negotiations, to the 1969-1971 period under Nixon, when STR "disappeared", to 1974 when STR again became a viable and functioning institution.

The drafting of a major piece of trade legislation which would, if passed, authorize another major round of negotiations under the General Agreement for Tariffs and Trade (GATT) framework was instrumental in helping STR regain some of its former importance. The best indicator of STR's level of activity and bureaucratic prestige at a given point in time has been whether there is a major negotiation underway. In between negotiating periods, Congress and the agencies who sit on STR's inter-agency committees lose interest in STR and cut back on the staff and fiscal support needed to maintain the Office at a viable level.

Another reason for this variation in STR's activities has been the lack of a clear Congressional mandate as to its role. The legislation does not define STR's responsibility in conducting bilateral or multilateral negotiations nor does it define STR's role in periods of non-negotiations. The first Special Trade Representative confined STR's activities to multilateral negotiating whereas later STR's have

expanded their role into the area of bilateral negotiations.

This fluctuation in activities is also due to the personalities and management capabilities of the different STRs. As important as the differences in the STRs themselves in determining the role and effectiveness of this organizational unit has been the changing political and economic environment under which the STRs have operated. The early 1960s provided a liberal environment for trade negotiations. The STR was involved in negotiating flexible trade policies during the Kennedy Round. During the late 1960s, the changing political and economic climate made it more difficult for STR to perform its role effectively. The protectionist forces in the U.S. grew in number and strength as the U.S. balance of payments deteriorated and monetary problems became more severe. As these protectionist forces grew in influence, STR with its recognized liberal trade philosophy was bypassed on important trade matters. Multilateral negotiations lapsed as STR was unable to put legislation through Congress to extend its tariff cutting authority.

At the same time, President Nixon centralized the decision-making function, creating new White House structures such as the Council for International Economic Policy (CIEP), and, alternatively, depended on his personal advisors for decisions. Nixon brought to Washington men who were interested in expanding their power base to include control of trade policy. In this period, STR fought for survival.

In the early 1970s, STR regained some of its prestige which had declined during the late 1960s, and reemerged as a viable force in trade policy. The economic climate once again encouraged multilateral consideration of trade issues, and the U.S. began to draft a new trade bill. The STR was instrumental in that process. The 1973 Trade Bill provides for a new series of multilateral trade negotiations and a more clearly defined role for the STR and its Office. The chances now appear good that this bill will pass Congress during the 1974 Session. [Ed. note: since this text has been written, the Trade Act of 1974 has been passed by Congress and enacted into law.]

EVALUATION OF THE ROLE OF STR

One criticism made of STR is that it is a permanent, ongoing institution but multilateral negotiations in the past have occurred only sporadically. When there is no major multilateral negotiations underway, STR's usefulness is questioned, and its bureaucratic prestige suffers. This questioning and loss of prestige makes it difficult

for STR to function even at a reduced level of activity.

A major problem for STR is that it does not have a clear mandate in the field of trade policy. One ambiguity is whether STR is responsible for bilateral as well as multilateral negotiations. Another problem is the lack of definition of STR's responsibility for drafting trade legislation. Some of the difficulties and ambiguities appear to be lessening over time.

The problem of how STR is to cope with the low prestige and questioning of its usefulness during the periods between major negotiations remains the most troublesome issue for STR. A strong argument can be made, however, that there are definite advantages in having STR an ongoing institution. The fact that STR is a permanent, ongoing institution has proven extremely useful to other actors with an interest in trade policy. These individuals and groups often use STR to give them policy guidance. Since STR does not represent a specific narrow constituency, it can be more neutral, and hence more credible in brokering between the interests of different actors. As a result, STR is generally a popular and respected organization in Washington.

Congress, in particular, has reacted favorably over the years to STR. Congress was unhappy with State's management of trade problems, but has reacted favorably to the STR structure, staunchly shielding it from attacks and suggestions for reorganization. This good relationship has proven critical in the difficult fights to get trade legislation through Congress as trade bills historically have more lobbying directed against them than any other type of legislation.

There are certain features of the STR role and structure that have proven clearly advantageous in the negotiating context. During a fast moving, important negotiation, STR's representatives speak for both the President and the agencies, thus allowing for quick and effective responses. Even when there are no multilateral negotiations underway, STR acts as a coordinator of other agencies or at least makes them aware of the consequences of going their own way.

STR's role as a convener of the agencies on trade matters helps to take some of the day-to-day pressures off the White House staff. The STR Office is not, however, a surrogate for the White House staff. STR must receive direction from the White House in order to be an effective negotiating agent of the President.

In conclusion, STR performs a role in trade negotiations that is not duplicated elsewhere in the American government and generally plays it well. The question remains, however, whether the STR functions might be more effectively managed within alternative organizational frameworks.

EVALUATION OF ALTERNATIVE ORGANIZATION STRUCTURES

At present, STR most closely approximates the "Two-tiered" model of the Commission whereby the White House is the lead coordinating agency using staff expertise from various line agencies. It has been suggested that a "Strong White House" model might prove superior as operational decisions could be made closer to the President. One way to achieve this goal would be to merge STR with a White House policy structure such as the Council on International Economic Policy (CIEP). The major drawbacks to joining these two bodies are that the White House structure might prove too large and unwieldy to work efficiently, and CIEP might find itself enmeshed in the operational detail of one part of its total area of responsibility, to the detriment of its other foreign economic policy areas.

The alternative suggestion to return authority for multilateral negotiations to the State Department does not appear to be a realistic alternative given Congress' distrust of State. Finally, it would be possible to create a U.S. Board of Trade to handle trade negotiations. The main drawback to this alternative is that it would mean creating a large new bureaucracy, whereas an advantage to the present STR system is that it can function without the staff and financial requirements of a large bureaucracy.

Thus a decision to put the STR negotiating function into an alternative organizational structure would involve heavy costs which when weighed against the advantages probably would not produce a net gain to the U.S. trading system.

I. Background: Historical Framework of U.S. Trade Negotiations

The position of the Special Representative for Trade Negotiations (STR) was created in 1962, as part of a comprehensive trade bill passed by Congress. The Special Representative was charged with the responsibility of acting as the United States' negotiating agent in trade negotiations with other countries. The U.S. role in the international negotiating system has a much longer history, however. By establishing STR Congress was merely shifting the responsibility for negotiations from the State Department to a new organizational entity. Thus, in order to understand the present role and mandate of the STR, it is first necessary to trace the development of the international system of trade negotiations from the time of the Roosevelt Administration when negotiations first began.

The basic tasks and responsibilities of the Office of the STR are derived from trade legislation

passed in the early 1930s which authorized the U.S. to enter into negotiations with foreign governments for mutual reduction of trade barriers.

A. THE TRADE AGREEMENTS ACT—1934

Almost 30 years before the Office of the STR was established in 1962, the need for tariff reductions was recognized by Congress and President Roosevelt. The Smoot-Hawley Tariff of 1930, the highest in American history, had a dampening effect on the American economy by reducing imports and exports which were already down as a result of the depression. Stemming from this deteriorating trade situation, the Roosevelt Administration launched the U.S. Trade Agreements Program in 1934. This program encouraged increased imports, which was seen as the most effective way to achieve a recovery in U.S. export trade. The Trade Agreement Act authorized the President to reduce any tariff to 50% of its 1934 level.

Roosevelt administration officials felt that a multilateral effort was impossible, so bilateral negotiations became the pattern for the next 30 years. The State Department, through its Trade Agreements Division, assumed responsibility for management of these bilateral negotiations. Part of the Trade Agreement Program included provision for an Interagency Trade Agreements Committee to be chaired by the State Department and include representatives from the Departments of Agriculture, Commerce, Treasury and Labor.

B. ESTABLISHMENT OF THE GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT) —1947

In 1947, a multilateral system of negotiating trade concessions was initiated in an attempt to broaden the choice of articles on which tariff reductions could be granted. In late 1946, the United States invited other countries to join in the first multilateral conference for the mutual reduction of tariffs. This conference of 23 nations, meeting in Geneva in 1947, established the General Agreement on Tariffs and Trade (GATT) which today remains the international structure for the conduct of multilateral trade negotiations. At the 1947 conference, approximately 54% of U.S. dutiable imports were affected by tariff reductions, and tariffs on dutiable U.S. imports fell by an average of 18.9%.¹

From 1947 to 1962, five separate rounds of tariff negotiations were held under GATT auspices. The State Department's Trade Agreements Division

¹John Evans, *The Kennedy Round in American Trade Policy, The Twilight of the GATT?* Cambridge: Harvard University Press, 1971, p. 11.

continued to run the multilateral negotiations as it had the bilateral negotiations under the Trade Agreements Program. Frequent meetings were held with the Interagency Trade Agreements Committee and when negotiations were underway in Geneva, one representative from each of the agencies was generally present. In the main, however, the primary responsibility for negotiating trade concessions remained with the Department of State. Moreover, it was State that bore the burden of drafting authorizing legislation for these continuing rounds of negotiations.

C. CREATION OF THE POSITION OF THE SPECIAL TRADE REPRESENTATIVE: THE TRADE EXPANSION ACT OF 1962

The election of John F. Kennedy to the Presidency in 1960 led to major changes in the operation of U.S. trade negotiations. Even before his inauguration, Kennedy appointed a task force to devise a new trade initiative. Many features of the task force report were incorporated into the Administration's trade bill presented to Congress in January 1962.

There were several reasons that international trade was given this high priority by the Kennedy Administration in the early 1960s: (1) the existing authorization for tariff negotiations was due to expire in June 1962 and the tariff cutting authority had been largely used up in previous negotiations; (2) State Department negotiators had just finished the fifth or "Dillon Round" of negotiations in 1962, and many people were disappointed in the low level of reductions that had been achieved; and (3) Congress had initiated a series of actions directed toward restricting the President's negotiating authority. In the eyes of the Kennedy Administration, the Dillon Round illustrated the need for a new and bold trade initiative. Kennedy's Undersecretary of State for Economic Affairs, George Ball, was given the assignment of drafting a new trade bill. Ball's assistant, Howard Peterson, and a staff of approximately 25 undertook the detailed work of drafting the legislation in August 1961.

1. Political Environment at the Time of the Drafting of the 1962 Trade Bill

In writing the 1962 Trade Expansion Act, the drafters of the legislation were aware of the need to incorporate trade legislation into a broader political context that would appeal to Congress and the American people who otherwise might oppose a trade bill because of inherent special protectionist economic interests. The writers of the legislation tried to characterize the trade agreements authorized by the Act as a weapon to fight the "Cold War".

The negotiations would, according to the bill's Statement of Purposes, "strengthen economic relations with foreign countries through the development of open and nondiscriminatory trading in the free world; and prevent Communist economic penetration."

2. STR and the 1962 Trade Act

On January 25, 1962, the bill was submitted to Congress, and in October it was enacted into law as the Trade Expansion Act of 1962. The Act authorized tariff cuts of 50% on most products from the 1962 level and even larger tariff cuts were authorized on articles where the current tariff rate was already less than 50% ad valorem. The Act also provided for establishing the position of the Special Representative for Trade Negotiations in the Executive Office (STR). The STR was not, however, part of the bill as drafted by the Administration. It was in the Ways and Means Committee that the STR was written into the final bill.

While the Administration bill was being debated in the House Ways and Means Committee, Chairman Wilbur Mills was asked by agricultural interests to find a way to insure that the State Department did not run the negotiations that would take place after the bill was passed. The State Department, according to the farmers, had been "selling the country down the river for years". The explanation given for this claim of the agricultural interests was that State's constituency was the foreign nations. Meeting with the foreigners on a daily basis, State allegedly would see trade matters from their point of view and bow to foreign political considerations instead of considering domestic economic issues. Some believed that State often based a bargain on political rather than economic considerations with the net loser being the American farmer or industrialist.

Wilbur Mills shared the feeling that State did not represent domestic interests to an adequate degree, and supported the movement to take negotiating responsibility from State.

The Ways and Means Committee looked for a substitute body to take over State's job. At one point it was proposed in the Committee that the Secretary of Commerce take over this function. Agricultural and labor constituents reacted violently to this suggestion, claiming that Commerce would sell agriculture and other non-industrial interests "down the river" even more. The idea of having the Treasury Department take over the negotiations came up briefly. The argument against this suggestion was that Treasury was interested in monetary policy only and would manipulate the trade account to suit its own objectives.

Since none of the existing line agencies were

likely candidates for the job of negotiating trade agreements, Mills suggested that this function be set up in the Executive Office of the President to coordinate the views of the agencies interested in trade matters. The basis for this Congressional compromise is described in a section of the House Report on the Trade Reform Act of 1973 which stated that: "the position (of STR) was created to provide both better focus and centralized direction for treating trade negotiations and trade problems from an overall commercial point of view and to downplay the strictly foreign policy orientation that trade agreement negotiations had been subjected to in the past under the leadership of the Department of State." (p. 40).

The Special Representative, appointed by the President with the advice and consent of the Senate, was authorized to take charge of the negotiations and chair the interagency organization which was to advise the President on the execution of the Trade Expansion Act. President Kennedy favored the idea of bringing the trade negotiating function closer to the Presidency in the Executive Office, and it was the White House that actually gave Mills the idea for the Special Trade Representative.

The proposed amendment to set up the negotiating structure in the Executive Office of the President was accepted by Kennedy, but with the following understanding: that Kennedy himself be allowed to write, by Executive Order, his arrangements for creating an Office for the Special Trade Representative. For this reason, the Trade Expansion Act is very brief in its description of the functions and responsibilities of the position of Special Representative for Trade Negotiations.

3. Authorizing Legislation

The position of the Special Representative for Trade Negotiation is described in Chapter 5, "Administrative Provisions", section 241 of the 1962 Trade Expansion Act. Major features of the legislation are that the Special Representative for Trade Negotiations:

- is to be the chief representative of the United States for trade negotiations under the Trade Expansion Act and other negotiations as determined by the President;
- is to seek information and advice with respect to each negotiation from representatives of industry, agriculture, and labor, and from such agencies of the United States; and
- is to chair the interagency cabinet level committee established in the Trade Act to advise the President on trade matters. This committee, patterned after the Interagency Trade Agreements Committee, was to assist the President by:

(1) making recommendations on basic policy issues arising in the administration of the trade agreements program,

(2) making recommendations as to what action he should take on reports regarding tariff adjustment submitted to him by the Tariff Commission,

(3) advising on the results of hearings concerning unjustifiable foreign import restrictions and recommend appropriate action, and

(4) performing such other functions with respect to the trade agreements program as the President may from time to time designate.²

This act was implemented by an executive order in 1963 which more clearly defined the role of the STR. Generally, the STR is to:

- advise the President on the operation of the trade agreements program
- coordinate the views of other agencies regarding trade agreements
- act as principal spokesman for the administration on trade legislation before the Congress
- provide day-to-day leadership in trade negotiations—particularly GATT
- provide a focal point within the Executive Branch for interested parties to present their views on trade matters.

II. The Evolving Role of the Special Trade Representative

Over the past 12 years, STR has adjusted its organizational structure and orientation in response to changing political and economic conditions, differing objectives of each individual holding the office, and varying trade agreement-related administrative needs. Within this period there are three identifiable phases of development: the Kennedy Round from 1962–67 when the STR acted as a negotiating agent for the President in a successful and innovative round of multilateral negotiations; from 1968–70 when no major negotiations were taking place and the STR declined in prestige and effectiveness; and from 1971–74 when STR regained some of its earlier prestige and was instrumental in drafting and lobbying for the 1973 Trade Bill currently before Congress.

A. PHASE I—STR IN OPERATION—THE KENNEDY ROUND 1962–1967

The Kennedy Round of trade negotiations was the first major test of the President's expanded authority under the Trade Expansion Act of 1962 in-

²Section 242, Chapter 5 of the *Trade Expansion Act of 1962*.

cluding the use of the Special Representative for Trade Negotiations. The early role of the STR was solely that of running the Kennedy Round. President Kennedy appointed Christian Herter as the first Special Representative for Trade Negotiations. Herter, a Republican, Eisenhower's Secretary of State, and ex-Governor of New York, lent a bipartisan, statesmanlike atmosphere to the office. Herter had supported the purposes of the bill from the outset and later proved himself a successful implementor of the Administration's liberal trade policies.

Herter's personal role in the work of the STR has been described as more a figurehead than an operating chief. Herter's conception of the role of the STR, however, left an indelible mark on STR in his development of the office into a strong and successful operating unit for multilateral negotiations and his decision to limit STR's role to multilateral negotiations (as opposed to including bilateral negotiations also).

1. Office of the Special Trade Representative

President Kennedy's Executive Order provided for the establishment of an Office of the STR, including the appointment of two Deputy Special Representatives for Trade Negotiations. These deputies were assigned major responsibility for the actual conduct of trade negotiations.

In order to prepare for the upcoming negotiations scheduled to begin in May, 1963, the STR Office, under Christian Herter, began to take shape. Two Deputy STRs were appointed to handle the details of negotiations, one to be based in Washington (William Matson Roth) and the other in Geneva (Michael Blumenthal). There were five major organizational units in the first days of the STR office. (1) *The General Counsel's Office* was responsible for interpreting the negotiating authority of the STR as legislated in the 1962 Trade Agreements Act, analyzing earlier legislation on trade policy and legal issues connected with trade matters. (2) *The Office of the Chief Economist* was responsible for analyzing the economic impact of various proposed tariff cuts. (3) *The Office of the Agricultural Economist* was responsible for assessing the special requirements of agricultural products. (4) *The Chairman of the Trade Staff Committee* was responsible for coordinating interagency staff support to the STR in reviewing information, preparing issue papers, analyzing options, and recommending policies and actions. (5) *The Chairman of the Trade Information Committee* headed the interagency committee responsible for holding public hearings and coor-

inating other public input on proposed trade agreements, foreign import restrictions, or other trade agreement matters. An interagency *Trade Executive Committee*, chaired by a Deputy STR, coordinated interagency input, and recommended policies to the full cabinet level Trade Policy Committee.

The STR staff included 25 professionals in 1963, located in Washington or Geneva. In addition, staff members from other federal trade-oriented agencies were assigned "on detail" to STR.

2. STR's Relationship to the White House Staff During the Kennedy Negotiations

Even though Christian Herter had a close personal relationship with President Kennedy, this close access never substituted for the close interaction between members of the White House staff and the STR Office. Though part of the Executive Office of the President, STR did not have a role similar to that of the White House staff. Whereas STR had operational responsibilities for conducting trade negotiations, the White House staff's task was to consider domestic and foreign political implications of policy alternatives and advise the President on a course of action. Typically, it was the White House staff that conferred directly with the President. STR was usually a party to White House discussions concerning trade matters, but it was not a "convener" of staff discussions, nor could it be, since it was an operating agency.

During the Kennedy Round of negotiations the senior staff member in the White House most involved with STR was Francis Bator, Deputy Special Assistant to the President for National Security Affairs from 1964 through 1967.

STR typically presented issues for White House staff consideration through memoranda. Before an issue went to the White House for a decision, the Trade Policy Committee generally held a meeting in which the different agencies would present and debate their points of view. STR would summarize these positions in a memorandum and submit it to the White House staff for consideration.

During the final eight weeks of the negotiations in 1967, the interaction between the STR Office and the White House became more intense. There was a special cable line on which the President's instructions could be communicated to the STR negotiators in Geneva.

STR never eliminated the need for the White House staff function during the Kennedy Round. STR managed to work efficiently with White House staff, and through them communicated ideas to the President and received policy directives promptly.

3. Other Participants in the Kennedy Round

Congress played a watchdog role in the Kennedy Round. Written into the administrative provisions of the 1962 Trade Expansion Act is the requirement that during the GATT negotiations there be two delegates each from the House Committee on Ways and Means and Senate Committee on Finance. The function of this delegation was to represent the interest of Congress at the negotiations and to act as the liaison between the delegation in Geneva and Congress. One Congressman in particular, Thomas Curtis of Missouri, took this responsibility very seriously and spent much time in Geneva and then in Washington reporting to the Congress on the progress of the negotiations.

Federal Agencies traditionally concerned with trade matters, the Departments of Agriculture, Commerce, Defense, Interior, Labor, State, Treasury, and the Tariff Commission, belonged to the Interagency Trade Expansion Act Advisory Committee established by the 1962 Trade Act. These agencies had representatives in Geneva, and the representatives were usually members of the STR Trade Staff Committee. The Trade Staff Committee was made up of upper-middle level staff members (General Schedule 15) of these same agencies. STR was, however, the leader of the negotiating teams. The State Department had a provision in its budget for the GATT conference and was able to provide technical support for the negotiations, and the greatest number of U.S. negotiators came from the State Department.

4. Results of the Negotiations

The final Kennedy Round agreement was signed in Geneva on June 30, 1967. Two types of agreements were reached: agreements to cut tariff rates, and agreements to eliminate certain types of non-tariff barriers.

The tariff rate cuts were the most dramatic achievements of the Kennedy Round. Having gone to Geneva with the authority to cut existing tariff levels by 50%, the negotiators managed to expend a large part of this negotiating currency. They negotiated reductions on most industrial products by more than 35% on the average.³ The record in the agricultural area was not as dramatic or clear, but the United States was successful in gaining significant advantages, particularly in the grains area. The volume of trade affected by the multilateral cuts has been estimated at forty billion dollars annually or about 40% of the imports of the industrial

³These statistics on the results of the Kennedy Round are taken from John Evans' book, *The Kennedy Round in American Trade Policy: The Twilight of the GATT?*, pp. 282-284. His figures, in turn, are derived from the official *Report on United States Negotiations* and the British *White Paper* issued after the Kennedy Round.

countries that participated in the negotiations. The U.S. reduced tariffs on 64% of all dutiable imports.

5. Evaluation of the Kennedy Round and STR's Role

While STR's role in the Kennedy Round was crucial, not all of the credit for the results in Geneva should go to the STR. A number of other influential factors were also responsible for the Kennedy Round achievements, including the economic and political climate in Europe and the U.S., the new negotiating techniques used, and the performance of all parties at the negotiating table.

Environment—The early 1960s were marked by a growth in the size and prestige of the European Economic Community (EEC). The overall growth rate of the EEC was approximately twice that of the United States, and many interpreted the EEC's superior performance as evidence that greater freedom of trade leads to greater growth. Furthermore, the growth of the EEC meant that the United States increasingly would be facing a common external tariff which was substantial at the time the negotiations began. Domestically, the attitude of U.S. industry and labor was generally favorable to tariff negotiations. Certain traditionally protective industries such as shoes, chemicals, and textiles opposed tariff reductions, but the majority of industries were clearly on the side of liberalizing trade. The AFL-CIO and most other labor groups also favored tariff cutting negotiations in the early 1960s. Politically, these negotiations had the strong support of President Kennedy, and Kennedy allowed Herter and the STR Office to play the lead role in the negotiations.

Negotiating Techniques—The negotiating techniques used at Geneva in the Kennedy Round differed from those used in earlier GATT multilateral negotiations. Previously, concessions were negotiated on an item-by-item basis. Each delegation would prepare lists of products on which they would be willing to grant concessions. Simultaneously, the team would make demands for concessions from other countries and a bargain would hopefully be struck. In the Kennedy Round the agreement reached by the ministers in 1963 was that negotiations on most products would be done on a linear basis, i.e. all tariffs would be reduced by the same percent. A country could argue for an exception to the linear cut, but the linear cut was the starting point for negotiations.

STR and the Negotiating Teams—A former member of STR who was present in Geneva attributes much of the success of the Kennedy Round to the skillful way that Deputy STR Michael Blumenthal handled the negotiations. This impression, shared by others on the scene and in Washington enhanced the

status of the STR. Credit is also due to foreign negotiating teams and to the Departments of State, Treasury, Commerce, Labor, and other agencies who sent their representatives to work on the negotiations.

Due to its success in Geneva, the STR Office enjoyed a period of very high prestige after the negotiations were concluded, and the atmosphere at the STR Office during this period has been described as "euphoric". Later events, however, showed that the prestige and authority of the STR Office were not always sustainable at this level.

6. Later Reaction to the Kennedy Round Concessions

Changing Congressional Attitude Toward Trade Policy—The first event eroding the negotiated positions of the Kennedy Round was Congress's refusal to authorize the agreement on a non-tariff barrier. This agreement provided for abolition of the "American Selling Price" (ASP) as the basis for assessing duties on benzoid chemicals. Whereas in the tariff area Congress had given prior approval to certain cuts, the non-tariff barrier area was one where Congress reserved the right to approve or disapprove the agreements after the negotiations had been completed. Fearful that STR may have gone too far in Geneva, Congress was beginning to pull back from its earlier liberal position expressed in the passage of the 1962 Trade Act. Congress was also beginning to experience pressure from different interest groups who felt they had been short-changed in the negotiating process.

The changing Congressional attitude toward a more protectionist stance was evident in the flood of bills introduced in the 1968 session calling for the imposition of quotas on foreign imports. During this same session, STR also proposed what was labeled a "housekeeping bill" (due to its limited scope). The main purpose of the bill was to restore the expired tariff cutting authority of the Trade Expansion Act. When Congress adjourned before the 1968 elections, the Ways and Means Committee had, however, failed to take action either on the Administration's trade bill or on the flood of quota bills proposed.

Congress also severely reduced the STR budget after the Kennedy Round. The House Appropriations Committee felt a budget cut for the STR operation was appropriate since its negotiating responsibilities were over. These budget cuts meant a reduced level of operations for the STR Office.

The STR Office meanwhile had undergone some changes. Christian Herter died before negotiations were completed. His successor was William M. Roth, the former Deputy STR. In many ways it was the end of an era at STR: with negotiations com-

pleted on this major round, with a new man as head of STR, and with a changing political and economic climate, the STR entered into a new phase of operations.

7. Role of the STR under William M. Roth

After the Kennedy Round was completed and before the entrance of the Nixon Administration in 1968, the Office of the STR went through further changes. Roth did not change the role of STR regarding multilateral negotiations and, in fact, continued the work begun earlier by Herter in the Kennedy Round. Where his conception of the role of the STR differed from Herter's was in the area of bilateral negotiations. Roth felt State should not exercise final control, whereas Herter had been content to let State continue their pre-STR role vis-a-vis other countries.

After the major 1967 agreements were reached and the bilateral GATT issues increased in number and importance, Roth felt it was STR's role to become involved in these bilateral issues. The 1962 legislation had not spelled out STR's responsibilities. The language of Section 241 of the Act says merely that "A Special Representative shall be the chief representative of the United States for each negotiation under this title and *for such other negotiations as in the President's judgment require* that the Special Representative be the chief representative of the United States." (emphasis added).

Roth chose to interpret this authority as extending into the bilateral trade field, and under his leadership the STR began to share the responsibility for bilateral issues with State. For example, STR would usually handle European Economic Community (EEC) matters since STR had developed an expertise in this field. State, on the other hand, continued to handle most Latin American bilateral issues. State would also assume responsibility when political national security issues were involved in a bilateral matter. Some of the more controversial bilateral issues, such as the Japanese textile quota question, bypassed STR because of the domestic sensitivity of the issue and because of STR's known opposition to agreements restricting free trade. State, however, was also cut out of the textile negotiations beginning in 1969. In other instances where State was willing to take on a particularly difficult issue such as the Japanese and European Steel quotas, STR was willing to defer to State's lead. Thus State and STR generally carved out separate areas of responsibility for conducting bilateral negotiations.

Roth also influenced the role of STR through his comprehensive approach to trade matters. Rather than restricting himself to trade negotiations, Roth also set up a commission to study future U.S. trade

policy. Roth's commission report was submitted to Nixon on January 14, 1969. Roth hoped that the next administration could take all of the increasing domestic and international trade problems into consideration without coming to the conclusion that the United States should return to a protectionist stance as regards world trade. What actually followed in the area of foreign trade policy was a great disappointment to those who shared Roth's point of view.

B. PHASE II—ECLIPSE OF THE STR: 1969–1971

The years 1969–1971 marked the period when STR's prestige and influence was at its lowest point. This eclipse of STR was caused by a number of factors, some related to the STR organization itself, others relating to the political and economic climate in the United States at that time.

1. Effect of the Change in Administrations on STR Office

Richard Nixon's election to the Presidency resulted in an extremely uncertain environment for the STR Office. William Roth resigned after Nixon's election in January 1969, and the position of Special Representative was vacant for six months. Theodore Gates, former Chief Economist for STR served as acting Special Representative. In this initial period of the Nixon Administration, the financial problems that had developed in 1967 became more serious. There was little recognition or understanding of the STR Office during this time, and STR had to work hard to convey to the Bureau of the Budget that STR was an ongoing institution with responsibilities and fiscal needs.

This de-emphasis of STR by the Nixon Administration was partly due to a simultaneous build up in the size and scope of activities of the National Security Council (NSC). Three international economists were added to the NSC staff, and this staff performed work that STR had done previously. For example, one NSC project was a study of trade policies with Japan. The chairman of the study committee was the Assistant Secretary of State, and STR was only a member of the committee. The high-level STR interagency advisory committee created by the 1962 legislation did not meet at all during the Nixon administration.

During the period when Theodore Gates held the position of acting STR, the White House seriously entertained the idea of abolishing the STR Office altogether and transferring its function elsewhere in the governmental structure. Since the *Office* of the Special Representative had been created by Executive Order and only the *position* of Special Representative was written into the 1962

legislation, the President could have abolished the STR Office or shifted the STR position to a different administrative structure by Executive Order.

Secretary Stans proposed to President Nixon that the function of the Special Trade Representative be transferred to the Department of Commerce. This proposal was overruled because farm organizations and lobbyists found out about the Stans proposal and exerted pressure on the Administration to keep the STR independent. Although Stans lost in his attempt to take the STR function to Commerce, he did succeed in influencing the choice of the next STR. Carl Gilbert, former president of the Gillette Corporation, was appointed the new STR in 1969, and was confirmed by the Senate in July, 1969.

According to several past and present STR staff members, Stans met with Gilbert prior to his appointment and gave his approval to the choice of candidate. Although Gilbert was in form a free trader and hence might at times disagree philosophically with certain of Stans' positions, he did not have an aggressive, political personality. Stans approved Gilbert's appointment since a confrontation over trade issues was less likely with Gilbert as the STR than if there had been a strong personality heading both the Commerce Department and STR.

2. Role of STR under Carl Gilbert

In retrospect, it appears that Stans was accurate in his assessment of Gilbert. In the words of a current STR official, Gilbert lacked the "bureaucratic toughness necessary to run the office". The STR Office operated without effective direction and control, partly because Gilbert was ill during much of the time he held the post of STR.

Equally important in explaining the decline of STR was the fact that Gilbert occupied a low status position in the Nixon White House informal hierarchy, and hence he had little access to the President. Bypassed on most critical international economic issues, Gilbert and his STR Office tended to be forced into the role of observers in trade policy formulation. As several current STR staff members expressed it, "STR vanished from the landscape in this period."

STR's biggest problem, however, was the fact that there was no ongoing multilateral trade negotiation or prospect of one in the near future. The agencies that had supported STR through their participation in the interagency meetings and in the negotiations in Geneva lost interest and failed to provide needed staff support for the routine bilateral GATT negotiations and for the drafting of new trade legislation.

In 1969–1970 another effort was made to put a piece of trade legislation through Congress, but again Congress did not act on the Administration's

bill. STR had the formal leadership for managing the legislation, which was largely patterned after the liberal trade oriented Roth Report, but State also helped determine the content and character of the bill. In the House Ways and Means Committee, numerous quotas were tacked onto the bill. Chairman Mills reluctantly introduced textile quotas onto the legislation, and consequently the bill became known as the Mills Bill. After passing the House, the bill died in the Senate Finance Committee. Thus, STR was again left without a legislative mandate for further tariff reductions.

Due to all these factors, STR's prestige with Congress and the public declined considerably, and other stronger members of the Administration increasingly made more of the important decisions regarding trade.

3. Creation of the Council on International Economic Policy (CIEP)

A major organizational innovation of this period affecting STR was the creation of a formal organizational layer above STR for the formulation of overall foreign policy. This organization change was based on recommendations submitted to the President by his Advisory Council on Executive Organization.

The Council felt a central staff was needed in the White House where all foreign economic policy issues were considered, and recommended lodging this policy formulation function in a Council on International Economic Policy (CIEP) into which the Office of the Special Trade Representative would be incorporated. The President accepted the Council's recommendation on CIEP but chose to keep the STR independent. The Council's mandate was to achieve consistency between domestic and foreign economic policy, provide top level focus for the full range of international economic issues, and maintain close coordination with basic foreign policy goals. The members of CIEP were the Secretaries of State, Treasury, Defense, Agriculture, Commerce, Labor, the Director of the Office of Management and the Budget, the Assistant to the President for National Security Affairs, a special advisor to the President for textiles, and the Special Representative for Trade Negotiations. The President was designated the Chairman of CIEP, and an office of an Executive Director was established to manage the operations of the Council.

Organizationally, no overlap was to exist in the roles of STR and CIEP: CIEP was charged with responsibility for formulating overall international economic policy; STR had specific operational responsibility for trade negotiations. STR was to receive policy direction from CIEP, but would continue to be operationally responsible for trade

negotiations. Thus CIEP was to perform the same function as the *ad hoc* system for decision making used during the Kennedy and Johnson Administrations when NSC and top Cabinet officials were consulted on difficult policy questions.

C. PHASE III—RE-EMERGENCE OF THE STR—THE 1973 TRADE BILL

In the period 1971–1974, the STR regained some of its prestige which had declined during the late 1960s, and re-emerged as a viable force in trade policy. Two major factors are responsible: first, the appointment of William Eberle as STR on November 3, 1971, and second, the opportunity to work on substantive trade legislation, which if passed, would lead to a new round of multilateral trade negotiations and a better defined role for STR.

The Administration's selection of Eberle to be the new STR was fortunate for STR. Eberle proved himself a skillful and strong politician, and he was able to rebuild the STR Office and regain the respect for the Office that had been lost in the 1969–1971 period. Part of his success was due, however, to factors other than simply his own personal strengths. Equally important, he had Presidential support in his efforts to rebuild STR. According to a present STR official, Eberle was told when given the job of Special Representative to "put STR back on the map".

When Eberle became the Special Representative for Trade Negotiations, he was given clear instructions from the Administration to devote his efforts to bringing about a new round of multilateral negotiations. There were two parts to this assignment: first, to work with the other GATT members to achieve a consensus that there should be a new round of negotiations and arranging the details of the Conference, and second, to draft and put through Congress a major piece of trade legislation that would give STR the advance authority to negotiate tariff and non-tariff trade barriers.

1. Eberle's Efforts to Obtain Consensus of GATT Members for a New Round of Negotiations

The first serious discussions of a new round of multilateral trade negotiations occurred during the 1971 Smithsonian meetings on monetary reform. These discussions were followed in 1972 by formal declarations by the United States, Japan, and the European Community announcing their intention to initiate and actively support comprehensive trade negotiations. Other parties joined in this commitment in the November 1972 session of GATT, and a Preparatory Committee was established to lay the basis for a ministerial level meeting which would officially launch the negotiations. This

preparatory work was completed in 1973, and the ministerial meeting was held in Tokyo in September, 1973. One hundred and five countries joined in the "Tokyo Declaration" which announced that trade negotiations were officially open.

2. Role of STR in Drafting the 1973 Trade Legislation

While STR was involved in this preparatory work with the other GATT members, it also had lead responsibility for drafting the legislation for a new U.S. trade bill. The process of drafting the Trade Bill of 1973 provided a useful case history for the study of the modern role of the STR. The story of the Trade Bill illustrates the pressures and political and economic environment STR must deal with, given its organization structure and mandate.

3. Political Environment at the Time of the Drafting of the 1973 Trade Bill

Unlike the early 1960s, in 1973 no consistent and obvious larger political context could be identified to justify the push for new trade negotiations. The U.S. and the Europeans no longer held the same strong fear of Communist economic penetration to bind them together. Moreover, the events of the late sixties and the Vietnam War, in particular, served to accentuate the differences in points of views and priorities of the United States and the other GATT members.

Recognizing the need to find a point of common concern that would argue for lower economic barriers and closer political ties, the drafters of the 1973 Trade Bill tried to sell the idea of the bill as a partial solution to such problems as worldwide inflation and international food shortages. Most recently, a new round of negotiations was advertised as a way of countering the Arab oil monopoly power.

The lack of an obvious and consistent political issue on which to focus the legislation is a major reason for the recent difficulty in putting a trade bill through Congress. Almost three years of work have gone into the 1973 Trade Bill, and two previous ones, the 1969 and 1970 Trade Bills, failed to reach the floor of Congress.

4. STR and the 1973 Trade Bill

When work began on the Trade Bill in 1971, STR's role in this work was clear. Peter Peterson, head of CIEP, believed that it was STR's responsibility to draft legislation. This belief flowed naturally from his overall concept that STR's job was to perform operational tasks such as drafting legislation, whereas the role of the CIEP was to formulate overall international economic policy.

The concept of the STR-CIEP relationship changed in a very dramatic way in January, 1972, when Peterson left CIEP to become the Secretary of the Department of Commerce and Peter Flanigan became Director of CIEP. Flanigan first tried to have CIEP and STR formally consolidated, but abandoned this idea when Congress intervened. As they had stopped Secretary Stans when he had tried to take the STR, so Congress stopped Flanigan. Congress did not want the STR and its operation to become more "politicized". Congress felt that the CIEP was more of a political body than STR since it was, in fact, a cabinet-level advisory council to the President, whereas STR had specific operational responsibilities.

Flanigan tried one more time during the drafting of the Trade Bill to have the Offices of STR and CIEP merged. This time George Shultz, Chairman of the Executive Committee of CIEP, prevented the merger. He made this decision when the key officials in the STR Office threatened to resign if the merger were effectuated. The plan was dropped and STR continued as an independent body, but was strongly controlled by Flanigan.

Another factor in the preservation of the STR was the fear of Congress' reaction should these two bodies be merged. The earlier effort to consolidate the offices had created a strong Congressional reaction. As a result, George Shultz and others whom he consulted, Alexander Haig and Henry Kissinger, decided not to change the present STR structure which had proven so popular with the Hill.

5. Drafting of the 1973 Trade Bill

The drafting of the legislation took place within a new interagency committee established by Peter Flanigan and chaired by Dean Hinton, Deputy Director of CIEP. The average size of this Trade Legislative Committee meeting was 25. In addition to the line agencies that participated regularly in the meeting (State, Agriculture, Commerce, Labor, Treasury, Interior, and Defense), the Tariff Commission, the Council of Economic Advisers, and the Office of Management and the Budget also attended most of the meetings. The National Security Council, on the other hand, only attended meetings on certain specific policies, such as those involving the Soviet Union and generalized preferences. The STR was also a member of this committee and the Deputy STR held the post of Vice-Chairman. STR and CIEP disagreed on a number of policy matters, and in these cases Peter Flanigan usually overrode the STR's more liberal viewpoint.

In addition to the disagreements between STR and CIEP, major policy disagreements also existed between the agencies who were represented on the Trade Legislative Committee. The Department of Agriculture, feeling that the U.S. had been short-

changed in the Kennedy Round, thought the U.S. was "owed" some concessions in the next round of negotiations. Commerce, fearing a disruption in the American economy if trade barriers were substantially lowered, tended to oppose the drafting of a liberal trade bill. Treasury felt the U.S. trading partners were being intransigent, and that the United States should take a hard line with these countries in negotiating tariff and non-tariff barrier reductions.

The department nearest to the STR in its trade philosophy during the drafting of the legislation was State, and these two agencies worked together closely. The Labor Department, more conservative than STR or State, was generally in agreement on basic policy matters. Labor felt the U.S. could liberalize trade policies if arrangements were made to deal with adjustment problems at home. Given these divergent views, the first months of the drafting process were discouraging and unproductive.

A breakthrough came when William Pearce, Deputy STR and Vice-Chairman of the Committee, persuaded Flanigan to allow STR to draft issue and options papers based on the general free trade themes expressed in a 1971 report from the Williams Commission (the "Commission on International Trade and Investment Policy"). Pearce and other business and labor leaders formed the membership of this Commission which attempted to deal with some of the problems of foreign trade. STR felt the process of preparing and discussing the options papers provided a starting point for negotiations and allowed for a rational resolution of the bureaucratic differences. The final decision on an issue about which there was disagreement was made by Chairman Hinton. The STR lawyers then translated the policy into statutory language, and the proposed section of the Trade Bill was reviewed by the Executive Committee of the CIEP. George Shultz chaired the Executive Committee meetings, and he would listen to appeals of the Hinton rulings at this point.

The position of the President was unclear throughout this period of drafting. His statements and actions at times seemed ambivalent. This ambivalence and confusion is reflected in the efforts involved in the preparation of the President's message to accompany the Trade Bill to Congress. The message went through eight drafts. As initially drafted by STR, the message described the bill as a liberalizing force for trade. At the White House, Peter Flanigan and his staff changed the draft so the bill sounded more "hard line" in its approach to trade negotiations. The final message delivered by the President was more liberal in its tone than Flanigan's draft. The bill and the President's message finally went to the House on April 1, 1973.

6. Recent Developments at STR: Eberle's Appointment as Director of CIEP

The future role of STR will be affected by one more factor: the appointment of William Eberle as head of the Council on International Economic Policy (CIEP) in July, 1974. Eberle will now perform two functions: the job of Special Representative for Trade Negotiation and that of Executive Director of CIEP.

Some people in Washington believe that Eberle's appointment to CIEP was a way of merging the CIEP and STR in a way that would not be subject to Congressional attack. According to Eberle, however, these two bodies will not be merged. In an interview on August 1, 1974, Eberle made the following statement:

"Let me be very positive in saying there is no merger. It just happens that you have one man that is holding two titles. It is my intent to see that the STR remains an independent organization because it does have a rather special function to carry out, quite different from that of CIEP. The people there will remain professional, civil servants."

However, if the precedent continues of having the STR also function as Executive Director of CIEP and others less inclined to delegate authority hold these positions, the independence of the STR operation may be threatened.

III. Evaluation of the Structure and Role of the Office of the Special Trade Representative

Having traced the development of the STR Office and discussed the varying personalities of each Special Trade Representative, one can attempt an assessment of the adequacy of the STR organizational arrangement based on its past performance.

A. EVALUATION OF THE ORGANIZATIONAL STRUCTURE

1. Current Structure

There have been few major changes in the structure of the STR Office during the past twelve years. Although its staff has expanded, STR is basically the same organization structurally it was at the start of the Kennedy Round. It has not grown, as some feared it might, into a large, unwieldy bureaucratic structure. Five basic units remain, several of which have undergone some functional realignment. The *General Counsel* and *Trade Staff Committee* remain intact. The *Special Representative for Multilateral Trade Negotiations* provides technical and economic backup for these negotiations. The *Office of Foreign*

Operations is responsible for development of general trade issues and specific country, and blocs of countries, trade issues.

The Office of Commercial Policy and Coordination is responsible for the domestic side of trade negotiations including industry liaison, Congressional and public affairs, and special projects. In addition, a separate policy planning unit and an agricultural advisor report to the Deputy STR. In late 1974, the size of the staff was approximately 40 professionals as compared to 25 in 1962. If the Trade Bill passes and multinational negotiations begin, this staff will increase to 52, with 42 assigned to Geneva. This number does not include the personnel which will be assigned to the STR on detail from other government agencies.

An interagency *Trade Steering Group*, composed of deputy assistant secretaries, performs the coordinating and policy formulation responsibilities set out in the original legislation. The styles of the present STR and his Deputy favor *ad hoc* rather than formal full-scale cabinet meetings. The *Trade Staff Committee* is more active and often meets three times a week. The Trade Staff Committee, like its predecessor (the old Trade Agreements Committee chaired by State) is designed to insure that opportunities exist for the expression of opinions of various agencies on trade matters before a decision is made. The committee members then try to reconcile differences and produce consolidated positions. The *Trade Information Committee* continues to meet as provided for in the original legislation.

Since 1971 when CIEP was established, another alternative high level forum has been held for the discussion of trade matters. Typically, the Executive Committee of CIEP will convene for the purpose of reviewing a number of issues, perhaps including a trade issue.

2. Advantages and Disadvantages of the STR Organizational Structure

STR is a unique organizational structure in the U.S. government. Located in the Executive Office of the President and responsible for trade negotiations, STR does not fit into the typical mold of a federal agency organized around a constituency. With only a small staff of its own, STR depends on other agencies for technical and economic support. This unique structure has certain benefits which affect its performance.

1. Benefits of STR Structure

a. STR's Ability to Draw on the Resources of All Agencies

One measure of the effectiveness of the STR system must be whether the commitment of resources (personnel or budgetary) is appropriate in scale to the work required of STR.

The advantage of the STR system is that STR can draw on the resources of other agencies. This aid has taken the form of both staff support and financial assistance. That STR's size fluctuates according to whether there is a multilateral negotiation underway means it has not become an entrenched bureaucracy. The detail system, which allows people from other agencies to work at STR for a period of two to five years, accounts for this fluctuation. Thus, STR is a flexible and adaptable organization.

A second way STR benefits from the personnel of other agencies is through the workings of the Trade Staff Committee. The interagency committee system of STR further enlarges the pool of talent that regularly contributes to the workings of STR. The financial support provided by other agencies means that one cannot evaluate the level of financing available to STR simply by looking at the size of the STR budget (\$1,850,000 for fiscal year 1975). For example, State Department's 1974 budget includes two million dollars for the multilateral negotiation which would occur if the 1973 Trade Bill is passed.

b. STR's Success at Coordinating Views of Agencies

The STR system was designed with the idea that by giving an agency the specific responsibility of coordinating the activities of the other line agencies in trade matters, friction and duplication of efforts could be reduced. These expected benefits have been realized. Traditional disagreements between agencies are much less intense due to the increased understanding resulting from talking and working together. Furthermore, the interagency consultative process helps to insure the best obtainable information from a wide range of sources is elicited and considered in STR's decisions.

In addition, the process of participating in trade policy formulations through the STR mechanisms has meant the agencies themselves have increased their expertise in the areas of international affairs.

2. Costs of the STR Structure

The same structural elements of STR which produce beneficial results also can create problems for STR.

a. Vulnerability of STR

Because STR is a relatively new organizational entity with neither a supporting constituency nor an entrenched bureaucracy, its organizational integrity has been threatened by individuals and agencies interested in expanding their control over trade policy. These attacks have weakened STR's ability to function and are a cost of having a staff rather than a line agency structure.

b. STR's Lack of Control Over the Resources of Other Agencies

That other agencies supply resources to STR is both an asset and a cost. It is a cost because it means that STR cannot totally control when and how these resources are provided. This lack of control causes

problems in terms of personnel and financial management.

On the personnel side, STR's performance has suffered because of variations in its agency staff support. The agencies lose interest in the workings of STR when major negotiations are not underway. Attendance at staff meetings drops off, and STR then has to do the staff work by itself.

Finances are a continual problem for STR despite the fact that other agencies directly or indirectly contribute to the workings of STR. The main problem is that the financial support comes on such an uneven schedule: if there is a multilateral negotiation underway, Congress and the agencies give STR the financial support it requires. Otherwise, the support slackens off. STR's needs do not diminish at a proportionate rate, however. Another problem in depending on the agencies for financial support is that STR cannot usually control how these funds are spent.

c. Slowness of the Interagency Process

As illustrated by the fact that the 1973 Trade Bill took over two and one half years to draft, it is obvious that an interagency committee structure is a slow and complicated way to formulate policy. This slowness of the STR process is a major cost of the STR system, dependent as it is on obtaining the consensus of other agencies.

d. Summary of Benefits and Costs of the STR Structure

The principal benefits of the STR organizational structure are its flexibility and efficiency, but there are problems of personnel and fiscal control, and organizational vulnerability inherent in the STR system.

B. EVALUATION OF THE ROLE OF STR

Having looked at the history of STR and its organizational strengths and weaknesses, the question that finally can be addressed is whether STR as an ongoing governmental institution has a valid role to play in the management of U.S. trade policy.

One criticism made of STR is that it is a permanent, ongoing institution, but multilateral negotiations in the past have occurred only sporadically. When there is no major multilateral negotiation underway, STR's usefulness is questioned, and its bureaucratic prestige suffers. This questioning and loss of prestige makes it difficult for STR to function even at a reduced level of activity. The 1969-1971 period under Gilbert was an example of the difficulties faced by STR during a period where there were no multilateral negotiations.

STR also does not have a sufficiently clear mandate in the field of trade policy. One ambiguity is whether STR is responsible for bilateral negotiations or whether they should remain part of the

traditional State Department function. The lack of definition of STR's responsibility for drafting trade legislation creates another problem. While STR was given responsibility by Executive Order for presenting trade legislation to Congress, responsibility for designing and drafting the legislation was not precisely designated. The lack of clear legislative authority made the drafting of the 1973 Trade Bill difficult because CIEP and STR vied for authority to determine policy.

Finally, the STR structure is criticized because the Special Representative and his two Deputies have ambassadorial rank but no official connection with the State Department's ambassadorial system. This allegedly confuses foreign governments, making it difficult for them to distinguish the functions and responsibilities of the various types of ambassadors. This problem is further complicated by the "roving ambassadors", appointed by the President to handle specific crisis situations.

These criticisms of the STR role may have been valid in the past, but some of the difficulties and ambiguities are beginning to disappear. For example, while the lack of a clear mandate in bilateral negotiations has sometimes caused confusion, State and STR gradually have divided the responsibilities for bilateral negotiations on an *ad hoc* basis, using the criteria of relative expertise in the geographic area or the degree of political content of a trade matter. Responsibility for drafting trade legislation was divided during the drafting of the 1973 Trade Legislation, with STR and an interagency committee performing the physical tasks of drafting with close direction and control from the White House. Other Administrations and personalities may prefer a different arrangement, however.

The difficulty foreign governments experience in distinguishing between the identities and functions of different types of ambassadors might be alleviated by a U.S. effort to fully explain the roles of each type of ambassador. More importantly, Administrations should be consistent in the way they use ambassadors.

The problem of coping with the low prestige and questioning of its usefulness during the periods between major negotiations remains the most troublesome issue for STR. A strong argument can be made, however, that there are definite advantages to having STR as an ongoing institution. That STR is a permanent, ongoing institution has proven extremely useful to other actors with an interest in trade policy. These individuals and groups often use STR to give them policy guidance and to listen to their needs. These actors include Congress, the federal agencies, and private interest groups. Since STR does not represent a specific narrow constituency, it can be more neutral and hence, more credible, in brokering between the interests of different

actors. Consequently, STR is generally a popular and respected organization in Washington.

Congress, particularly, has reacted favorably over the years to STR. Congress was unhappy with State's management of trade problems, but has reacted favorably to the STR structure, staunchly shielding it from attacks and suggestions for reorganization. Good personal relationships between Ways and Means Chairman, Wilbur Mills, and STRs, Roth and Eberle, help to explain the bond between STR and Congress. This good relationship has proven critical in the difficult fights to get trade legislation through Congress as trade bills historically have more lobbying directed against them than any other type of legislation.

The various interest groups have found STR useful as a place they can go to express their viewpoints. STR listens to all of the groups formally in hearings of the Trade Information Committee or informally, on a daily basis. STR does not necessarily follow their recommendations, but the interest groups know their point of view is at least considered.

Another advantage to STR being an ongoing agency of government, at least from the viewpoint of those who favor frequent multilateral negotiations, is that STR continues to function when there are no negotiations underway. As an organization, it exerts pressure for new negotiations. Since STR's prestige hinges on the status of multilateral negotiations, STR is naturally motivated to push for new legislation and new rounds of negotiations. Furthermore, the periods between negotiating sessions may shorten in the future, thus reducing the problem for STR. Given the increased strains on the international trading systems due to inflation and high energy prices, the trend may be toward more frequent multilateral negotiations.

Certain features of the STR role have proven to be clear pluses in the equation. During a fast moving, important negotiation, STR's representatives speak for both the President and the agencies, thus allowing for quick and effective responses. Even when no multilateral negotiations are underway, STR acts as a coordinator of other agencies or at least makes them aware of the consequences of going their own way. STR's authority in this disciplinary mode comes, of course, from the White House, and STR is powerless without White House support on an issue.

STR's role as a convener of the agencies on trade matters helps to take some of the day-to-day pressures off the White House staff. Many trade issues are detailed and complicated in the larger context of international policy, and the STR staff is often better prepared to deal with such issues than those in the White House proper.

The STR Office is no surrogate for the White

House staff nor has it ever so aspired. STR must receive direction from the White House in order to be an effective negotiating agent of the President. During the Kennedy Round this guidance was handled in an *ad hoc* fashion by members of the NSC or Bureau of the Budget staff. During the Nixon Administration, the CIEP staff primarily has provided the direction in an institutionalized framework.

In sum, STR plays a role not duplicated elsewhere in the American government. Its efficient organizational structure has proven flexible and responsive during negotiations, tied as it is to both the President and the other line agencies. Some actions should be taken, however, to make STR function more effectively. First, its role vis-a-vis other agencies and policy groups should be spelled out more clearly in future trade legislation or by Executive Order. Second, when a President chooses his Special Trade Representative, he should try to select a candidate with the stature, competence, health, and appropriate personality to effectively manage the Office. The position of STR is only trivial and unimportant when an ineffectual person heads the Office. Once selected, however, the STR should be left relatively free to determine the details of the STR structure, as past STR's have made good use of creative, *ad hoc* organizational arrangements. This flexibility of the STR Office has proven a definite plus both during and outside of the negotiating context.

Thus, the advantages of the STR role appear to outweigh the disadvantages, but a number of clarifications in the STR mandate should be made to insure the Office runs at a consistently productive level.

IV. Probable Performance of STR Under Alternative Organizational Structures

If the STR Office is to remain a viable organizational entity with a clearly defined role in U.S. foreign economic trade policy, the question remains whether STR might function more effectively within alternative organizational frameworks. Using the organizational models prepared by the Commission Staff, this concluding section of the paper describes how STR and its Office might perform under each structure.

MODEL 1 STRONG WHITE HOUSE

This model provides for centralized and coordinated foreign policy decision-making by powerful White House staff assistants. One of these, as suggested by the model, would be an Assistant for International Affairs. The Council on International Economic Policy (CIEP), which fits into this model, would probably be chaired by the Assistant for In-

ternational Affairs rather than by the President. The problem then becomes one of the likely relationship of STR to CIEP. Those who support a strengthened White House role in foreign trade matters argue that the operational decisions of trade should be made closer to the President. One way of achieving this goal would be to merge CIEP and STR into a single office of international economic policy in the White House with policy-making and operational responsibilities. STR would probably serve as a staff arm to CIEP providing support to CIEP on trade negotiations issues as it does now. The one difference would be that STR would no longer be independent, and thus would receive all policy directives from CIEP rather than, as is now the case, only be responsible for ensuring that its actions are consistent with CIEP guidelines. If CIEP were to take over the present operations of STR, its staff and basic scope of responsibility would have to be expanded. Authority for trade matters, in turn, would be taken away from the line agencies.

A CIEP-STR merger would result in a blurring of the policy and operational lines which currently exist. CIEP might find itself so enmeshed in the operational detail of one part of its total area of responsibility, that the remaining foreign economic policy areas would suffer. Under this model, the special relationship STR has enjoyed with the Congress would be jeopardized due to its loss of independent stature. STR's consultation with domestic consumer and interest groups would probably be less objective and open and more political than is now the case.

MODEL 2 STRONG STATE DEPARTMENT

The alternative of having State primacy in foreign policy including the managing of trade negotiations would be a return to the same basic structure used before the establishment of STR. If the State Department were to handle trade matters, other agencies could still have some role in policy formulation. Under the old Trade Agreements Program established by Roosevelt, interagency mechanisms, similar to the STR committee system were used. The difference in a State run system would be that State would chair these interagency meetings and would lead the trade negotiations with foreign countries.

The main advantage to this traditional, established agency system is that the lines of authority are clear. Such a system contrasts sharply with one in which the White House performs a coordinating role, as in the present STR type of arrangement.

Problems with moving the operational responsibilities for trade negotiations back to the State Department might occur because of State's obvious

and natural concern for political aspects of economic matters. Those who oppose the "Strong State Department" model generally do so on the basis of a concern that political considerations might be overemphasized at the expense of economic considerations in policy decisions regarding international trade.

MODEL 3 DECENTRALIZED

STR, as it presently exists, would have difficulty operating under the "decentralized" model because each of the federal agencies would act independently to pursue its own interests. Trade negotiations, lacking a central coordinating focus, would be unmanageable. Trade negotiations rely on a process of give and take (for example a country in many cases must accept a lower tariff on one item to gain a higher tariff on another). Under this model, the different federal agencies would be unlikely to accept a compromise at the expense of their products in order to better the position of another agency.

MODEL 4 TWO-TIERED

This model most closely approximates the present STR concept with the White House as lead coordinating agency, using staff expertise from the various line agencies. Under this model, STR could remain separate from CIEP while maintaining direct lines through CIEP to the Secretary of State. The present arrangement by which the STR carries ambassadorial rank would be consistent with this model. What is less clear under this model is how the interagency ad hoc trade negotiating committees would relate to STR, CIEP, and the Secretary of State. Also, as more operational responsibility for trade negotiations is delegated to the State Department, the closer this model (for STR) would become to Model 2.

MODEL 5 DEPARTMENT OF TRADE

One further organizational model that has been discussed with reference to STR is the establishment of a separate department of trade similar to the United Kingdom's Board of Trade. The Japanese Ministry of International Trade and Industry (MITI) is another example of a department of trade, but is less applicable to the U.S. system because of the unique close relationship between business and government in Japan. The U.S. Department of Commerce is not analogous to a board of trade since it represents a much narrower constituency (industry as opposed to trade in general).

While the establishment of a separate department of trade in the U.S. is a theoretical alternative

to the present STR structure, such a department does not appear to be very attractive. Creating a department of trade would mean creating a new bureaucracy. One advantage of the present STR Office is that it can function without the staff and financial requirements of a large bureaucracy. Another disadvantage to a department of trade alternative would be that the existing agencies would no longer participate to any significant degree in the process of trade policy formulation and would lose the sensitivity to foreign policy considerations which they gain as a result of the interagency consultative process.

A department of trade would probably receive the same criticisms that State Department received when it had the sole responsibility for negotiating trade agreements. It would be very easy for the department of trade to forget to consider certain domestic considerations in its desire to achieve select foreign policy objectives.

Thus, while a department of trade would eliminate the necessity of borrowing staff and resources

from other agencies, such a department would add to the cost of government and would produce trade policies that would not necessarily be acceptable to Congress and the other departments.

In short, there does not appear to be an obviously superior alternative to the STR system. STR, essentially a two-tiered system, represents a compromise between the alternative Strong White House and decentralized or lead agency systems. Part of the Executive Office of the President, it remains distinct from White House policy and staff organization. Located outside of an agency, STR avoids the problems arising when an agency representing a specific constituency tries to coordinate overall policy formulation and implementation. Being a small and flexible office, STR does not have bureaucratic problems and costs. Thus, a decision to put the STR negotiating function into an alternative organizational structure would involve heavy costs which when weighed against the advantages probably would not produce a net gain to the U.S. trading system.

The Suspension of Economic Assistance to India

Joan Hochman
November 1974

AN OVERVIEW

United States Development Assistance to India Was Suspended During the 1971 Indo-Pakistani War.

On December 6, 1971, Charles Bray, a United States State Department official, announced the suspension of \$87.6 million worth of development loans to India, charging New Delhi as the "main aggressor" in the full scale war which had erupted on the Asian subcontinent three days earlier. The United States, he said, "was not going to make a short-term contribution to the Indian economy to make it easier for the Indian government to sustain its military efforts." Later in the day, a statement from the White House reiterated United States reaction to the conflict by stating it was "very unfortunate (for India) to be using armed force against a neighbor such as they are in East Pakistan." The suspension of economic assistance to India was a manifestation of United States disapproval of Indian military and political activity on the subcontinent; it did not represent a significant cutback in the existing levels of assistance to that nation.

The \$87.6 million represented approximately 39 percent of the total development loans which had been committed to India for FY 1971 in the Agency for International Development (AID) pipeline. What was *not* suspended was \$30 million of project aid loans allocated for specific purposes and \$105 million worth of non-project (program) aid which supported commodity imports and therefore contributed generally to the Indian economy. In terms of the total amount of United States foreign aid to India contributed in 1971, including \$234.8 million of Title I and II monies allocated under the P.L. 480 Food for Peace Program, the amount of aid suspended represented only a marginal diminution of flow of funds.

In Aid Giving Multilateral Institutions The United States Abstained From Voting On Loans Or Credits To

India During the Indo-Pakistani War.

The United States' decision to suspend bilateral program development assistance did not significantly affect multilateral extension of loans or credit to India during the war, nor did it alter the United States' willingness to continue bilateral and Consortia debt rescheduling exercises. With respect to \$75 million of International Bank for Reconstruction and Development (IBRD) and International Development Assistance (IDA) credit extensions proposed during December and January, the National Advisory Council on International Monetary and Financial Policies (NAC) voted unanimously to advise the Secretary of the Treasury to direct the United States Executive Director on the IDA board to abstain from voting if a formal vote were taken, but not to oppose formally the extension of credit. The purpose of this policy was to ensure formal consistency between United States bilateral and multilateral resource transfer policy. The goal was not to hamper significantly the flow of multilateral development funds to India.

I. BACKGROUND OF THE DECISION— THE INTERNATIONAL POLITICAL ENVIRONMENT

The United States decision to suspend development assistance to India was made by the President in a crisis environment generated by the 1971 Indo-Pakistani war—a war in which the big powers, while not militarily engaged, were actively interested in the political and military ramifications of the conflict and intervened diplomatically to protect what was perceived as their own national interests. The Indo-Pakistani war itself resulted from a civil conflict which had erupted in Pakistan nine months earlier.

A. The Pakistani Civil War

Differences in language, history, and culture between the peoples of East and West Pakistan and the concentration of economic and political power in West Pakistan make rivalry between the two sectors almost inevitable and continuous since partition in 1947. Protests in East Pakistan against what was perceived as West Pakistani domination were common through the 1950s and 1960s, organized and expressed largely through the political leadership of the Awami League.

In March, 1971, Sheikh Mujib-ur-Rahman, Bengali leader of the Awami League, began negotiations to increase East Pakistani political autonomy after a resounding Awami League victory in the first elections held for the National Assembly since General Yahya Khan acceded to power in 1969. West Pakistani leaders were concerned about the prospect of East Pakistani autonomy and the ability of the League to command a majority in the new parliament. On March 1, 1971, two days before the Assembly was to convene, Khan issued an order of indefinite postponement. A general strike and widespread civil disobedience were organized in East Pakistan by the Awami League in direct response to the Assembly postponement. Political negotiation between Rahman and West Pakistani leaders, including Khan and Ali Bhutto, leader of the West Pakistani People's Party, continued with the Bengali leadership calling for autonomy within a federated Pakistan. Increasingly, however, the Sheikh became a popular symbol in East Pakistan for Bengali secession and complete independence.

The martial law administrator in East Pakistan attempted to stem strike disorders with little success. On March 25, 1971 West Pakistani soldiers moved into Dacca in a military operation which ultimately resulted in tremendous economic disruption and loss of civilian, particularly Bengali life. Sheikh Mujib and 24 members of the Awami League were arrested and taken into custody in West Pakistan. Over the course of the nine-month Civil War, 70,000 West Pakistani troops were flown to the East, three million civilians were killed, and ten million Bengali refugees crossed the border, settling primarily in the Indian state of West Bengal.

B. The Indo-Pakistani War

A history of continued political tension between India and Pakistan since partition, which erupted into armed conflict in the 1965 dispute over Kashmir, West Pakistani military activities in the East, and the burden of caring for ten million Bengali

refugees made Indian involvement in the Pakistani dispute predictable. Throughout the spring, political confrontation between the two states escalated, as the Indian Parliament charged Pakistani leaders with committing genocide, and as West Pakistani leaders accused India of actively supporting the Civil War by aiding Bengali guerrilla forces with medical and military supplies.

While India's Premier Indira Gandhi waged an intense diplomatic campaign in an attempt to engage the international community in pressuring the Government of Pakistan to release Mujib and seek accommodation with the Bengali leadership exiled in New Delhi, military clashes between Indian and West Pakistan troops on the Kashmiri and Indian borders became more frequent throughout the summer and fall. As tensions heightened, Western European leadership, including all members of the India Consortium, continued to urge the Indian leadership not to go to war. Gandhi, however, felt that United Nations and particularly United States reaction to events on the subcontinent did not constitute a real effort to persuade the Government of Pakistan to reach political accommodation with the Bengalis.

On December 3, all illusions that war would be averted were ended when Pakistan launched an air attack from West Pakistani fields against the Punjab area and Indian troops began a full-scale invasion of East Pakistan, capturing Jessore and Sylhet immediately and threatening to take the Eastern capital, Dacca. On December 6, the day aid was suspended, India recognized the new sovereign state of Bangladesh. In response, Pakistan broke diplomatic relations with India. Although Indian troops suffered some loss of territory in southwest Kashmir, their invasion of East Pakistan was overwhelmingly successful militarily. By December 16, Indian troops had captured every major city in the region, while Dacca was being heavily bombed. On December 14th, the East Pakistani government in Dacca resigned and on December 16, Lt. General Niazi, Pakistani commander in the East, surrendered 70,000 Pakistani troops to the Indian forces.

C. "The Tilt Toward Pakistan"

Now famously characterized as the "tilt toward Pakistan," United States reactions to events on the subcontinent from March 25, 1971 through the end of the Indo-Pakistani war reflected a pro-Pakistani White House policy. The cutoff of development aid to India was one manifestation of the Administration's "tilt" policy. The delay in suspending military shipments to Pakistan after the outbreak of the civil war and the ensuing civilian loss of life repre-

sented to some Congressional, State and A.I.D. observers a second element of the pro-Pakistani policy. The U.S. refusal to pressure the Pakistanis diplomatically to end the military conflict and seek political accommodation with the Bengalis was a further manifestation of the tilt. The United States' position in the United Nations, supporting Pakistani claims of Indian harassment, de-emphasizing Indian concern with the threat to Indian political stability the refugees represented, was still another element of the Administration's pro-Pakistani position.

In formulating diplomatic responses to the series of events which moved India and Pakistan closer to war, Administration officials concentrated less on the substance of political events leading to the crisis and more on what global ramifications such a conflict would have on "big power" politics and alliances. Although India had done much since independence to chart a "non-aligned" course in international power politics, she was perceived as an ally of the Soviet Union. Since the outbreak of the civil war, China had publicly supported the Pakistanis, particularly in the United Nations by charging India with interfering in the "internal affairs" of another nation. The importance of these publicly articulated expressions of support were emphasized by two events which occurred during the summer and affected the evolving policies of the big powers toward the war on the continent.

In July, 1971 President Nixon announced that Henry Kissinger, his Advisor for National Security Affairs, had made the now-famous visit to Peking and had used the cover of his Pakistani visit to complete his trip in secrecy. What was not clear to Congressional leaders or lower level executive bureaucrats in the State Department was the role the Pakistanis had played in arranging the connection between Chou En-lai and Kissinger, the extent to which Kissinger and Nixon would value the importance of the China initiative, and the most important role the nascent relationship played in determining White House policy toward the crisis, to the virtual exclusion of other political considerations.

The second event which influenced United States thinking in upper echelons of the State Department and the National Security Council (NSC) was the signing of an Indo-Soviet 20-year Friendship pact on August 19. In the early summer, the Russians urged the Indians to follow a course of restraint, even as the burden of the "10 million uninvited guests" became more difficult. At that time the Soviet Union perceived Russian interests as being best served by avoiding war on the sub-continent. In August, however, the Soviets changed their policy by deciding to "back India all the way,"

largely because of an unwillingness to expend additional political capital by urging restraint when such counsel was having little impact on Indian policy-makers. This shift in Soviet policy toward more militant support of Indian actions was viewed by key U.S. decision-makers as a potential threat to the United States bargaining position in the upcoming Soviet-U.S. summit negotiations if the Soviets were successful in "exploiting" the regional conflict to their own advantage. Thus, the "tilt" policy, while reflecting overwhelming Presidential concern with the China initiative, was also a response to counter-balance what was perceived as an attempt by the Soviets to increase their influence and political leverage on the subcontinent.

D. U.S. Relations With India and Pakistan on the Subcontinent

1. POLITICAL SYMPATHIES

Since partition, United States relations on the subcontinent have been ambivalent, although tendencies since cold war containment have been to define U.S. national interests in South Asia in terms favorable to Pakistan. When the Dulles-originated system of military alliances was created, Pakistan joined CENTO while India refused to participate. Over an 11-year period from 1954-1965, the United States supplied over \$1 billion in military arms to Pakistan.

A major exception to official pro-Pakistani political sympathies was reflected by President Kennedy's interest in blurring the distinction between "aligned" and "non-aligned" nations as a primary determinant of how aid should be allocated. Kennedy's personal interest in Indian development and the ensuing warm political relationship which developed between the two nations has been characterized by one A.I.D. official as a "love affair." In 1965, Chester Bowles, the then U.S. Ambassador to India, recommended a sharp bilateral aid increase from the existing \$435 million level to \$900 million annually, reflecting the substantial Kennedy-initiated commitment to and interest in Indian development.

Nevertheless, the "tilt" towards Pakistan was not new, as the U.S.-Indian "love affair" was short lived. As an official ally, Pakistan supported the United States' position internationally, especially in the United Nations, while India was an outspoken critic of this country's Vietnam war policy. On a personal level, relations with Indira Gandhi and other Indian officials were often marked by acrimony. In some official U.S. quarters, Indians were thought to be moralistic, sanctimonious troublemakers, preaching the "wrong" ideology and at-

tacking the United States publicly for its Vietnam policy when the U.S. had given India more development assistance than any other nation. In the minds of key Congressional leaders, who view development assistance in quid pro quo political terms, India had not been a popular aid recipient.

2. THE AID RELATIONSHIP

While the United States has given more bilateral economic assistance to India than to any other developing nation in the history of the Foreign Aid Program, American reaction to the experiment of Indian socialist democracy has been marked by ambivalence. Since 1946, India has been the recipient of a net total of \$7,539.9 billion of American "Total Official Development Assistance", over half of which has been in the form of Title I and Title II P.L. 480 food shipments. However, over 78% of the total gross amount of economic assistance to India has been allocated as loans, not grants—a type of resource transfer which, due to debt service payment schedules, increases India's shortage of foreign exchange and therefore accentuates a major problem of developing economies.

The maintenance of a bilateral donor-recipient aid relationship is difficult because of the nationalistic sensibilities which become involved in the transfer of resources from the aid giving to the aid receiving nation. India sought to become increasingly independent of the ties associated with aid as she became more capable of utilizing aid resources herself. In developing the managerial expertise, economic and technical skills, and institutional infrastructure to manage both the politics and economics of development, Indian leaders increasingly viewed the 280-person American aid mission in New Delhi as a symbol of a too dominant U.S. presence in India.

Friction between India and the United States during the 1967–68 drought years on the subcontinent highlighted a gradual decline in U.S. assistance which began in 1968. The success of the "Green revolution" in 1969 and 1970 which, for the first time made India almost totally self-sufficient in wheat production, was a tremendous psychological boost to the goal of self-sufficiency. As a result, in October of 1971, two months before the U.S. aid cutoff, India suspended Title I shipments of food from the United States. The needs of the recipient had clearly changed over time—the levels and types of technical assistance appropriate for the 1970s for example, were in the process of being rethought in AID when the decision to suspend non-project aid was made. While AID advocates of continued development assistance to India did not relish the U.S. cutoff, given the already declining assistance levels, increasing Congressional disillusionment

with the aid program in general and with application to India in particular, made the U.S. decision to suspend \$87 million during a wartime situation, one which did not generate much surprise or controversy.

E. The Organizational Actors

The pro-Pakistani policy was formulated at the highest levels of decision-making within the Executive branch of government. The decision to cut off development assistance to India was not made by standard operating procedure for aid questions. Normal procedure would have dictated formal consideration of the issue by lower echelon State and AID Indian desk officers, through the Assistant Secretaries of the Near East and South Asia bureaus of State and AID. Public opinion was not considered at all during Executive deliberations in the fall, while Congressional opposition to manifestations of the "tilt" policy did not affect key decisions made by Nixon and Kissinger.

1. INDIVIDUALS AND EXECUTIVE DECISION-MAKING ORGANIZATIONS—KISSINGER, THE NATIONAL SECURITY COUNCIL (NSC), THE WASHINGTON SPECIAL ACTION GROUP (WASAG).

Consideration of a suspension of economic assistance to India was a relatively unimportant facet of contingency planning done by the Kissinger-dominated Washington Special Action Group (WASAG) during the fall of 1971. Representatives to WASAG, which functioned formally as a crisis-oriented policy planning staff, were high-ranking officials of the State Department, the National Security Council, the military and the CIA, although agency representation at WASAG meetings was partly a function of issues being considered each time. Typically however, General Westmoreland from the Pentagon, Director Helms of the CIA, Joseph Sisco, Assistant Secretary for Near East and South Asia affairs (NEA) in State, and Hal Saunders, top NSC staff person to Kissinger, were always in attendance, accompanied by lower ranking staff for support. When aid questions were to be discussed, Maury Williams, AID Assistant Administrator, attended.

Agendas for those meetings which were called to discuss the Indo-Pakistan crisis were prepared by the NSC staff on orders from Kissinger. The NSC, State and AID staff, particularly Saunders, functioned as an ongoing mechanism for communicating to WASAG members the thrust of Kissinger's thinking and the issues to be discussed at each WASAG gathering.

Saunders was also responsible for the initiation and quality of staff work required to support policy deliberations of the WASAG group. With respect to the India aid cutoff, a WASAG working group, chaired by Sisco's Deputy, Christopher Van Hollen, was responsible for preparing the analysis to support the decision to suspend aid. During the fall, WASAG meetings were held frequently to discuss the entire military and political situation on the sub-continent. The purposes of the meetings were, as some participants felt, to ensure that top level officials in State, AID, Defense, and CIA understood how White House thinking was evolving. They were not held to encourage argument and dissent for the purpose of evaluating possible U.S. responses to the crisis. Kissinger was clearly the dominant figure during WASAG deliberations.

2. THE CONGRESSIONAL ROLE AND REACTION TO THE CRISIS

Congressional reaction to the civil war was sympathetic to the Bengali independence movement and to India's increasing refugee burden. As the popular media continued to describe the civilian costs of the civil war in East Pakistan, those House and Senate members with a personal interest in South Asia or an institutional responsibility for humanitarian, food and refugee problems became increasingly opposed to Administration reaction to the crisis. Key Congressional committees focused on the Administration's policy toward continued military and economic assistance to Pakistan. Both the House Foreign Affairs and Senate Foreign Relations Committees disapproved of continuing arms and aid to Pakistan, passing resolutions to that effect in the spring and summer. Individual senators, including Kennedy, Church, Case, and Mondale, publicly attacked the Administration's refusal to cut off the military arms pipeline. Additionally, testimony given by Administration officials, particularly Christopher Van Hollen, Deputy Assistant Secretary for NEA in State, before Kennedy's Judiciary Subcommittee on Refugees in June, contradicted State Department public announcements that the Defense Department had not been shipping military supplies to Pakistan since the March 25 outbreak of civil war. Kennedy protested to Sisco that the Administration's arms policy was "misleading and contradictory." Public confrontations between the White House and members of the House and Senate continued throughout the summer and fall over manifestations of the Administration's "tilt" policy, although Congress could do little to pressure the White House in using military or economic aid as a leverage against the Pakistani government.

F. The Background Issues Raised by the Indian Aid Suspension

1. CONGRESSIONAL REACTION TO THE CONTINUANCE OF ECONOMIC AID DURING WAR

There is a stipulation in aid contracts which allows the United States to abrogate its aid commitments if a judgment is made that aid can no longer be used for the original purposes for which it was intended. In a war situation, there is some question as to whether too many resources, both capital and human, are directed away from a development effort for which aid is intended and directed toward the sustenance of a war effort.

While AID officials are somewhat relaxed about the extent to which such concerns should result in a suspension of existing monies, especially project aid, they were extremely sensitive in 1971 to what Congressional reaction would be as two aid recipients warred with each other. Top AID officials were concerned that Congressional leaders would call for a total suspension of economic aid to both India and Pakistan while the fighting continued, as they had done when those two aid recipients warred in 1965 and in 1967 during the Middle East conflict. AID officials underestimated the amount of sympathy the Bengali cause was generating in Congress, and the amount of sympathy India was winning for handling the burden of the refugees willingly and competently. However, extreme AID sensitivity to expected hostile Congressional reaction was understandable, given the past experiences of many AID officials who viewed the annual trip to the Hill to testify about the Indian aid program during appropriation and authorization hearings as something akin to the march up Calvary.

While continuance of economic and military assistance to warring aid recipients was a sensitive political issue within Congress and the Executive Branch, substantial humanitarian relief in the form of food and medical supplies was provided to Pakistan refugees throughout the course of the fighting. Through initial pressure generated by Senator Kennedy's Subcommittee on Refugees, the United States provided both bilaterally and through United Nations' auspices emergency relief aid which, in the words of several A.I.D. officials, was to be "kept above the battle." As guerrilla attacks on U.S. naval vessels carrying such aid became more frequent, emergency supplies were channeled through United Nations arrangements.

2. THE USE OF ECONOMIC ASSISTANCE AS AN INSTRUMENTALITY TO MAXIMIZE LEVERAGE IN SHORT-TERM POLITICAL SITUATIONS.

a. Leverage

A sophisticated version of the carrot and stick approach, called "leverage" by government officials, characterized U.S. decision-makers' differential treatment of economic and military aid policy toward India and Pakistan during the Indo-Pakistani war. The rationale for orchestrating U.S. influence in this manner suggests that one affects one's "friends" with carrots and one's "non-friends" with sticks. With respect to initial Congressional demands for the suspension of both military and economic assistance to Pakistan, NEA Deputy Assistant Secretary Van Hollen testified that economic assistance would not be suspended because it was "necessary as leverage to persuade Yahya to seek 'political accommodation' with East Pakistan on the basis of autonomy and to create conditions for the return of the refugees."

Similarly, at an August 4 Presidential news conference, Nixon opposed the cut off of economic assistance, saying "we are not going to engage in public pressure on the Government of West Pakistan. That would be totally counterproductive. These are matters that we will discuss only in private channels." According to State and AID officials, the United States was maximizing its political influence by *not* suspending aid toward Pakistan, and by suspending aid toward India because Pakistan was a friend and India was an "aggressor." The logic of this rationale is not supported by any of the decisions made with respect to military or economic assistance flows to either of the nations.

b. Chronology of Aid Suspension Decisions

In the middle of November, the White House bowed to public Congressional demands for an end to military shipments to Pakistan and through a State Department official announced a cancellation of licenses for the export of \$3.6 million worth of military equipment. Because this action was taken eight months after it could have had any real effect on the military operations of West Pakistani soldiers in East Pakistan, and because the cutoff was defined at such an early state in the flow of the military arms pipeline that it would not have immediate effect on current flows of supplies, Congressional critics of the Administration's arms shipment policy were not mollified. On December 1, Charles Bray announced the suspension of \$2 million of arms shipments to India and on December 6, the suspension of development assistance to that nation.

II. THE DECISION PROCESS

The decision to suspend economic assistance to India evolved in three stages. The first stage consisted of defining the overall short-term objectives of U.S. reaction to the crisis on the subcontinent.

Stage I—Definition of Objectives—"Sending India A Message"

The President, Kissinger, relevant staff members in the NSC and certain top-level State Department officials, viewed the crisis on the subcontinent as Indian-generated, and were determined to develop a set of strategies which would "deter (India) from heading toward Pakistani dismemberment." Such strategies were not formulated at the regional desk levels in the State Department or AID because Kissinger was devising and orchestrating United States policy from the White House using WASAG as a formal mechanism to gather information and communicate the intent of specific Presidential decisions. The President himself announced his "tilt" policy to WASAG representatives in a meeting held sometime in the middle of September.

When Kissinger decided to consider suspension of economic assistance as one means of "sending India a message," Maurice Williams, the AID Deputy Administrator, was asked by Saunders to attend WASAG meetings. Williams was the most important AID official involved in the decision-making process. AID Administrator John Hannah was not significantly involved in the deliberative process for a number of reasons. In November 1970, Williams was appointed by President Nixon to coordinate U.S. relief efforts to East Pakistan after a disastrous cyclone had severely damaged the East Pakistani economy, leaving 300,000 people homeless and without food. Williams had a close relationship with Kissinger, was well-respected as a long-time AID official, had formerly served as AID mission chief director in Pakistan, and, as emergency relief efforts became increasingly intertwined with political events after the beginning of the civil war, became the key AID contact with the NSC and Kissinger on economic aid issues.

Consideration of a cutoff on aid to India was not a hotly debated, emotionally charged issue in WASAG, partly because of the nature and purpose of the meetings, and partly because the question was always discussed in contingency terms. No unique thinking was required to identify assistance suspension as a possible political leverage point since it had historically been available and frequently used when the United States attempted to influence the behavior of an aid recipient—in the subcontinent in 1965, in Jordan in 1967, in Turkey in 1974. Hal Saunders, who attended WASAG meetings, was responsible for coordinating the effort to develop specific strate-

gies to translate overall White House objectives into implementable policies.

Stage II—AID Data Gathering

As the NSC coordinator of the analytic materials prepared for Kissinger's review, Saunders was responsible for initiating the effort of the Van Hollen-chaired WASAG working group to develop a briefing paper on how an aid suspension could be implemented. The purpose of the briefing paper was to consider all points of possible aid suspension, and the technical and legal problems associated with each cutoff point identified in the aid pipeline. Since the objective of an aid cutoff was to send India a political signal, the issue the WASAG working group faced was to identify a cutoff point with the appropriate degree of visible impact given overall WASAG contingency planning and Kissinger's political strategy. It was, of course, possible to select a cutoff point early enough in the AID pipeline such that the action would have no such symbolic effect. The first mandate considered by the WASAG working group, as defined by Saunders in late October, was to find and analyze the existing status of the Indian AID pipeline. Herbert Reese, the AID Director of the NESAB bureau, was the operative AID representative to the WASAG working group. The responsibility for information-gathering at this stage rather obviously fell to him. Under his direction, Assistant Indian desk officers in AID were responsible for developing "watching briefs", which monitored the status of the AID pipeline on a weekly basis through October and November.

Stage III—Analysis of Alternative Implementation Strategies by the WASAG Working Group

The third stage of the decision-making process was the analysis by the WASAG working group of the mechanics of how to suspend aid. Again, the staff work supporting deliberations of the WASAG working group was done by AID officials. At first, three broad options were identified in memo form by Reese as possible ways of defining an aid suspension.

The first, a position most palatable to AID officials, was to announce publicly that no *new* aid would be forthcoming if a political settlement was not reached. Obviously this kind of signal was the weakest in terms of any potential leverage an aid cutoff might have on the actions of another country. This "soft" option, as it was then identified, was exercised during the 1965 Indo-Pakistani war. The second, more immediate definition of an aid suspension was to cutoff aid which had already been committed, but which had not yet reached the stage of commitment under irrevocable letters of credit to American suppliers. The third and most severe action which could be taken was a combination of options one and two, with the additional step of stopping existing transactions.

The third option required a further analysis of what "stopping existing transactions" would mean, given the status and level of project and non-project aid, food shipments by voluntary and private agencies under Title II of P.L. 480 program. Possible cutoff points on existing transactions could have meant taking physical custody of commodities at port, stopping U.S. ships carrying food shipments on the highseas, pulling American technicians off projects then underway in India.

Saunders was responsible for monitoring the quality of the work prepared by the WASAG working group. He was particularly concerned that the costs, benefits, and technical implications of each particular plan to cut off aid were analyzed very carefully. This concern resulted from his judgment that the analytic machinery of the government, in facing the issue of the cutoff of military assistance to Pakistan earlier that spring, had not performed well. The administration had looked very badly in its testimony to and subsequent confrontations with members of Congress who felt officials had lied about the real intention of administration policy. Part of his role vis-a-vis WASAG contingency planning was to ensure that the staff work supporting each strategy option developed was accurate and based on the best information available. His emphasis on detailed information and good staff work was with respect *not* to whether aid should be suspended, *but, if the decision were to be made*, how would the action best be formulated and announced. Saunders deemed unsatisfactory the first analysis prepared by the WASAG working group because it did not identify specifically enough the technical problems associated with each cutoff point. While the working papers developed by the AID staff and used in WASAG meetings have not been made available, the final briefing paper prepared by Reese and approved in the WASAG working group supposedly contained a detailed analysis which satisfied Saunders.

In summary, the role of the WASAG working group was limited to defining implementation options for an aid suspension. Substantive evaluation of the costs and benefits of such a decision was the responsibility of the NSC staff and was carried out informally in conversations with Kissinger during the next stage of the decision-making process.

A. The NSC Role: Analyzing the Costs and Benefits of the Decision

Saunders was responsible for briefing Kissinger on the aid suspension contingency plans before WASAG meetings and used the briefing papers prepared in Van Hollen's working group as the ba-

sis for those briefings. Dialogue between Saunders and Kissinger was informal, and when asked, Saunders would express his view as to the appropriateness of a range of policy options. Although the question of aid suspension appeared on the WASAG agenda a number of times in November, it was Saunders and not WASAG who analyzed the costs and benefits of expressing disapproval of Indian action by suspending development assistance. AID officials, in addition to Maury Williams, prepared memos for Saunders which described the historical background of the East-West conflict, and attempted to broaden the perspective of the White House by conveying some sense of the horror felt in AID over events which many AID officials viewed as atrocities being committed by West Pakistani soldiers in the East. Ernest Stern, then an Assistant Administrator in AID, arranged in November for Saunders to meet Noral Islam, a Bengali leader who had escaped from Pakistan earlier in the fall, now the Deputy Chairman of the Bengali Planning Commission. Stern communicated informally with Saunders throughout the crisis, attempting to counterbalance the strong pro-Pakistani sentiment of the White House, with little effect.

B. The President's Decision to Implement an Aid Suspension

AID and State officials speculate that when India invaded East Pakistan on December 3, Nixon decided to implement a cutoff of economic assistance and communicated this to Kissinger. At a WASAG meeting probably held on December 4, Kissinger turned to Williams and said "the President has decided to cutoff aid (to India)." While it cannot be documented whether it was Nixon or Kissinger who made the actual decision, the Kissinger mandate to Williams was clear. It was the AID official's responsibility to oversee implementation of the decision. Williams responded by saying he would "look at the choices." Balancing off ease of implementation with the stated Presidential objective of sending a visible political signal characterized the choice of a specific cutoff point. Obviously, blocking bank accounts of monies not yet irrevocably committed was a less costly and far simpler means of implementing an aid suspension than was removing American technicians working in India. Williams wanted to select a strategy which was "reasonable." Option One outlined in the WASAG working papers—a suspension of new aid—was deemed by Saunders to be too "soft" a choice given the "tilt" objective of the White House and the intensity of the Nixon feeling that India was the aggressor. Option Three, which called for a cutoff of all existing transactions, would have been difficult to implement, as Williams

himself emphasized in previous WASAG meetings. Conversations between Williams and Reese subsequent to the December 4 WASAG meeting refined the original WASAG Option Two to *exclude* a cutoff of project monies and program aid already committed under irrevocable letters of credit. Williams reported to Saunders verbally that a modification of Option Two had been chosen.

Williams directed Reese to prepare a press announcement and background material for a question and answer session with the press. The draft was reviewed by Saunders and modified slightly by Ronald Ziegler, the Presidential press secretary, before State Department official Charles Bray spoke to reporters on December 6.

C. Formal Implementation

On December 7, 1971 a letter was sent to the Secretary to the Government of India in the Ministry of Finance in the Department of Economic Affairs from the Associate Director of the Loan Operations Division in the NESO Office of Capital Development and Engineering, informing the Indian Government that pursuant to Section 103.2 (b) of the Loan Agreement, AID was (1) declining to issue additional commitment documents and (2) cancelling balances in outstanding commitment documents to the extent that they had not been utilized through the issuance of irrevocable letters of credit.

Section 103.2 (b) is a catch-all clause in bilateral loan contracts which allows United States termination of the obligations of the agreement when "an event occurs which makes it improbable that the purposes of the loan shall be attained or that Borrower will be able to perform its obligations hereunder." In informing India of the aid suspension, no specific mention was made of those circumstances which prompted the United States to conclude that the purposes of the loan were not "attainable." The Indian reply of January 17 also did not refer to the war between Pakistan and India. The Joint Secretary to the Government of India simply rejected the conclusion that "any event as stipulated in Section 103.2(b) of the loan agreement has occurred." The AID action was characterized by the Indians as "unjustified and inconsistent" with the provisions of the Loan Agreement.

D. Informal Implementation

Williams delegated to Reese the task of implementing the specifics of the decision and dealing with the technical questions which would inevitably arise. Reese dealt informally and verbally with Ted

Lustig and Virginia Hancock in the AID NESABureau's Capital Development and Engineering Office to identify those bank accounts containing suspended program aid money which were to be blocked. No exact milestone marks the end of the implementation process, as more than \$3 million of the suspended \$87.6 million was disbursed over the next few months if letters of credit had been committed to the commodity, but not the freight. Lustig and Reese resolved these problems on a case-by-case basis with the supplier involved.

III. THE ADEQUACY OF THE DECISION MAKING PROCESS

A. Adequacy Assuming the Validity of White House Objectives

The formal decision making operation of WASAG worked well, assuming that the purpose of the crisis management group was to provide well thought out strategies which could be implemented at minimal cost once major policy decisions were made by Kissinger or Nixon. The formal process considered "how," not "whether," questions, and this was done thoroughly. *However, overall United States policy towards South Asia, including the cutoff, resulted from a White House definition of U.S. interests which minimized the importance of U.S.-Indian relations.* The assumptions underlying this policy were not debated in WASAG, the effectiveness of using aid as a political tool was never questioned in WASAG, the consequences of the cutoff, beyond the stated short-term objective of "striking a raw nerve" in the Indian leadership, was never considered. Assumptions made by Kissinger, Sisco and the Pentagon as to the purpose of the Indian invasion of East Pakistan were not challenged in front of Kissinger. While no regional officer in State or AID on the Indian or Pakistani desks supported the decision, such dissent was not expressed in WASAG. In summary, WASAG did not function as a forum in which real alternative policy options were debated. Rather it served as a mechanism both to legitimize the "tilt" policy formulated by Nixon and Kissinger and to ensure White House policy was understood by those officials responsible for implementing various manifestations of the tilt.

B. The Failure to Question Assumptions—The Process of Information Gathering

The failure of formal organizational mechanisms to generate debate was not a function of

inadequate representation on WASAG of those agencies who could be expected to present an alternative point of view, questioning the efficacy of using development assistance as leverage. Additionally, the rather limited perspective on the causes of the war reflected by Sisco, the NSC, the Pentagon and Kissinger did *not* stem from an inadequate flow of background information to key officials close to Kissinger. The formal decision-making process "preemptively capitulated" to the Nixon-Kissinger view of events on the subcontinent simply because Kissinger totally dominated decision-making. The most important factor affecting the dynamics of debate was the foreknowledge that Kissinger was not going to be influenced very much by anyone. Therefore, advocating formally what would be perceived in White House councils as an unpopular view was not worth the loss of personal political capital or influence because it would have had virtually no effect.

IV. ASSESSMENT OF OUTCOME

A. "Rationales for the Tilt"

Considerations which effected various decision-makers during formulation of the overall pro-Pakistani policy were at once historical and immediate, political and humanitarian, strategic and short-sighted.

The evolution of White House thinking resulted in the assumption that Indian policy throughout the crisis was directed towards the dismemberment of Pakistan. This reflected the biases of the top echelon decision-makers, although Saunders was aware that State and AID regional officers did not make the same assumptions about Indian intentions.

Throughout the crisis, Joseph Sisco publicly appealed to India and Pakistan to avoid a military confrontation so that "normal conditions" within East Pakistan could be restored. High State Department, NSC, and White House officials tended to underestimate the possibilities of a real Pakistani split because they did not understand the nature of the dispute between East and West Pakistan. In the beginning of the Civil War, they viewed the conflict as an internal affair which the West Pakistanis would be able to "handle." The willingness to view the strife as something the Pakistanis could manage was partly a function of the need to relegate the crisis to "unimportant" proportions since what was then perceived as more significant diplomatic initiatives were underway. Vietnam negotiations were foremost in Kissinger's mind, and Secretary of

State Roger's "shuttle diplomacy" in the Middle East was occupying much of the time and thinking of top State Department people, especially Sisco. By underestimating the depth of discontent in East Pakistan, the White House assumed the "upheaval" in Pakistan would be put down. As predictions as to the outcome of the "internal" civil strife were proven wrong over time, administration officials began to look for other explanations for the cause of the crisis. Some would characterize the Administration's explanation of the war as the "foreign devil theory". Anecdotal evidence suggests that Richard Nixon was convinced that the conflict was generated by the Indians. In high level echelons of the Pentagon, State Department, and White House, the view was unanimous that it was in India's interest to fuel the conflict because of her hostile relations with Pakistan since partition. Political events in Bangladesh were seen as an extension of an Indian plot.

In addition to these interpretations of Indian intentions, the anti-Indian mind set shared by some U.S. officials noted earlier, the overall cooling of the U.S.-Indian bilateral aid relationship, and the anticipation of a negative Congressional reaction to the Indian invasion of East Pakistan were all factors which contributed to the formulation and implementation of the tilt policy, including the economic aid suspension to India.

B. The Use of an Aid Suspension as Leverage

Because of the close relationship between Kissinger and Williams, Kissinger was aware that Williams was unhappy about the decision because as an AID professional he did not like to see development assistance used as a weapon to achieve short-term policy objectives in political or military crisis. However, even institutional advocates of a strong U.S. commitment to long-term development efforts of less developed countries are ambivalent about the use of aid as a tool of foreign policy. The higher the status of the AID official, the more sensitive he becomes to the prevalent State Department view that using bilateral development assistance as "leverage" to evoke particular political or diplomatic responses from recipients is an acceptable purpose of the foreign aid program. This way of thinking about the efficacy of aid as a tool is strange. While no one is willing to advocate relinquishing the option of using aid as part of an overall political strategy, most State and AID officials agree that the *threat* of an aid suspension and worse, implementation of an actual cutoff, exerts no short term leverage whatso-

ever. If the short term leverage of aid suspension is called into question as a viable means of influencing policy by the Indian aid case, the long term costs of the policy are also evident.

The effectiveness of the assistance cutoff is questionable in terms of any of the political or economic rationales used by officials to justify the decision. It was obviously not calculated as an economic sanction to prevent India from being able to wage war since the amount of aid in question was insignificant and represented only 39 percent of the total monies which might have been suspended. Secondly, the war did not continue long enough for any major shift in resources to occur in India from a development to military effort.

Scrutiny of political rationales for the aid suspension does permit one to draw different conclusions as to the impact of that decision on succeeding events. Mrs. Gandhi announced publicly that the aid suspension was not going to have an effect on Indian policy as such a threat obviously ran contrary to the Indian quest for neutrality and independence. Rather than striking a "raw nerve" in the Indian government, Indian aid officials, while not surprised, were somewhat saddened by the further deterioration in U.S.-Indo relations. Secondly, although it is not clear what the decision's immediate effect was on the Chinese leadership, it seems inconceivable that the U.S.-China relationship would have been damaged had the U.S. not suspended aid.

While the benefits of the suspension are debatable, the costs, some of which were unanticipated, were significant. In the sense that the cutoff was one symbolic gesture of the tilt towards Pakistan whose objective was to send a "political signal" to the Indians, it is clear that the Indians "got the message." How United States' interests were furthered by the sending of the message, however, is *not* clear. It took almost *14 months after* the initial cutoff to unsuspend the \$87.6 million in the AID pipeline that had been blocked in the Indian accounts but not allocated to other nations. The tilt jeopardized the entire U.S. political relationship with India, encouraged the Indians to perceive continued U.S. aid presence in India as a threat and sore point, further encouraged the Indians to reject U.S. AID council by closing out the 280 person AID mission in Delhi and made reestablishing relations a difficult, painstaking and yet uncompleted process. While the decision can be considered "effective" in the limited sense that the United States' objective of informing the Indians of the country's opposition to Indian support of the Bengalis was achieved, the costs were great and the validity of this objective can be called into question by the fact that aid was not resumed once war was over.

C. Organizational Mechanisms Do Not Provide Ways of Challenging Strong White House Policy.

Since no automatic mechanism existed within the government to call into question the resumption of aid, those advocates of resumption within State and AID had to rely on the personal relationship between Williams and Kissinger as an informal way of raising the issue. Any official pressure AID might have brought to bear was not used because *"no one in the bureaucracy wanted to assume the responsibility (of raising the aid issue) because everyone knew the White House didn't want to (resume aid)."* The initial suspension option was not debated in WASAG for essentially the same reason. Throughout the crisis, Saunders and Sisco debated informally with Stern over the intentions of the Indians, the severity of the split, the inadvisability of minimizing United States' interests in India. Both Williams and Stern were respected professionals. *That their political opinions were discounted did not reflect a failure of the government machinery to provide adequate background information to the White House staff.* The institutional bias and political viewpoints, especially of AID officials and middle level State bureaucrats were known and understood by the NSC staff and communicated to, and understood by Kissinger. Saunders understood the concerns of AID officials, partly since their perspective would, by definition, reflect the long term goals of the AID organization, partly because informal contact between Saunders, Williams and Stern continued throughout the crisis. Saunders knew the regional State desks were concerned with the possible Soviet gain resulting from a loss of U.S. presence in India because he understood the institutional lens through which political events were being analyzed in State. *Similarly, these State and AID officials knew their opinions were being considered.* The fact that they also knew they were being discounted reflected the option the White House always holds to make substantive foreign policy. While many AID officials later felt that the interests of the aid organization—to advocate long term development concerns—were not put forth as forcefully as they might have been, what was clear to those WASAG members at the time was that such advocacy would have had no impact.

D. Organizational Mechanisms and Aid Advocacy

Some lower level AID officials strongly objected to the Indian aid suspension after it was made. To

voice this dissent, the Indian country desk chief resigned, and Ernest Stern led a group of AID Washington personnel in a request that Secretary of State Rogers communicate to Kissinger the opposition of AID officials to the cutoff. After December 6, Sisco met with the AID group at the agency to listen to their objections. Little give and take occurred during the meetings as many AID officials expressed the view that the U.S. government did not use its "weight and majesty" to influence the West Pakistan government to end the civil war in Bangladesh and seek political accommodation with Rahman.

No AID official, however, dissented from the view that AID development can be insulated from short-term policy concerns. While definitive conclusions cannot be drawn from the examination of one case, the Indian aid cutoff decision points to the ineffectiveness of using organizational arrangements to insulate AID decisions from being used as leverage in short term political crises when the White House takes a strong initiative in defining and implementing foreign policy.

The Agency for International Development was created in 1961 for the purpose of ensuring the existence of an organizational forum through which long term development concerns could be advocated. The functions of the Development Loan Fund (DLF) and the International Cooperation Administration (ICA) were merged into a "semi-autonomous" agency within the Department of State, in which the AID Administrator held the title of an Undersecretary of State, reported directly to the Secretary of State, but also had direct access to the President. One of the major purposes of keeping AID out of the State Department proper was an attempt to separate U.S. long term development assistance activities from short term U.S. foreign policy interests in the minds of the American public and officials in less developed countries. *Neither this nor any other organizational aid configuration can ensure a separation of long term development and short term foreign policy interests, especially in a crisis situation, unless a fundamental redefinition of U.S. interests results in a changed perception of the "usefulness" of long term economic assistance.* Organization arrangements can facilitate the advocacy of an "aid insulation" position, but cannot ensure that such concerns will not be discounted in the face of "tough, non-fuzzy, hard hitting" political analysis which views aid as a tool to serve U.S. political interests. Until a rationale is developed which supports the view that United States long term national interests are served by a neutrally motivated transfer of resources, long term development concerns will be shunted aside in the face of political crises.

The Decision to Rescind Additionality Requirements on A.I.D. Grants and Loans

William Seelbach
November 1974

DECISION ABSTRACT

A. Definition of Additionality

In June 1969, President Nixon removed additionality requirements from AID grants and loans. Additionality requirements were one of the measures used by AID to minimize the negative impact of aid on the U.S. balance of payments. Additionality requirements had been in effect in one form or another since 1964.

During the Marshall Plan era and most of the 1950s, the U.S. balance of payments was not a critical issue. Aid appropriations were generally spent wherever prices were lowest. For the first few years after the war, the United States was the only major source for most of the goods needed by U.S. aid recipients. Consequently, most aid dollars were spent in this country even though they were not tied to U.S. procurement. This situation changed dramatically as the European countries recovered and became increasingly competitive. By 1960 only 41% of U.S. aid dollars was being spent for U.S. goods and services. Restrictions requiring that AID grants and loans be spent on U.S. products were imposed to improve the U.S. balance of payments. This condition was known as "tying".

Additionality requirements were more stringent restrictions placed upon U.S. aid to assure that U.S. exports procured under the foreign assistance program were above and beyond, i.e., *additional* to normal commercial exports. The intent of additionality restrictions was to eliminate the substitution of AID financed purchases for commercial exports. This was done not only to insure that aid resulted in expanded U.S. exports but primarily to reduce any negative impact of foreign assistance on the U.S. balance of payments. Additionality requirements

were increasingly applied from 1964 to their repeal in June 1969.

B. Key Actors and Issues Involved

Four U.S. agencies were primarily involved with additionality: State, AID, Commerce, and Treasury. State, and especially AID, was largely against additionality as it felt the restrictions were time consuming to administer, resulted in significant loss of goodwill with recipient countries, and produced marginal results as recipient countries would still buy U.S. goods without such restrictions. Commerce felt additionality was useful in improving U.S. exports and prior to 1969, Treasury saw the restrictions as a necessary element in its mission to improve the U.S. balance of payments position. President Nixon was the principal White House actor. He opposed controls and was concerned about the negative impact of additionality on Latin American countries, particularly Colombia. Nixon's uneasiness was fostered by his overall desire to improve U.S.-Latin American relations and an extensive lobbying effort undertaken during the first six months of 1969 by Latin American countries, particularly by Gabriel Valdes and Carlos Lleras, the Foreign Minister and President of Colombia, respectively.

C. Assessment of the Process

This paper presents an example of an apparently favorable outcome produced through a poor formal process. While various elements in the bureaucracy and the White House were involved with additionality, they operated independently of each other. The bureaucracy possessed the knowl-

edge concerning the impacts of additionality, particularly the domestic economic issues related to exports and balance of payments, while the President possessed the power and opportunity to act. Unfortunately it appears that the two had little contact prior to the decision. The decision was made in a unilateral way by President Nixon, apparently with little knowledge of any of the impacts other than those raised by Valdes and Lleras. Due to the unilateral nature and limited involvement of entities other than the President, this case study does not present a particularly complex process, but offers an interesting example of one of the chief organizational problems in foreign affairs—the separation of a few key decision-makers (in this case, the President) from the supporting bureaucracy (here, State, AID, Treasury and Commerce).

I. THE DECISION AND ITS BACKGROUND

A. History of Additionality

Additionality requirements were one of several measures adopted by the Agency for International Development (AID) to improve the impact of aid on the U.S. balance of payments. As a first step to reduce the outflow of dollars attributed to the foreign assistance program, AID began, in 1959, to "tie" its loans to U.S. sources of supply, i.e., AID funds had to be spent on U.S. products. AID also started tying grant programs in 1960. While tying presumably insured that aid funds were spent on U.S. products and services, concern was expressed that recipient countries would use such tied aid to purchase U.S. goods which they would have otherwise bought with dollars they already owned. Thus, tying aid does not by itself prevent an outflow of dollars. Consequently, efforts were made to assure U.S. exports procured under the foreign assistance program were additional exports and not a substitute for sales that the U.S. would have made on a commercial basis. From this concern arose the "additionality" measures.

Additionality measures were first instituted by AID in 1964 with the addition of special provisions to a number of loan agreements which required that the funds be used only for imports in excess of the recipient country's normal marketing requirements for certain commodities. Financing policies were further modified in 1965 to include U.S. export promotion as an explicit criterion for selecting projects for AID financing. Negative lists (lists of commodities which could not be financed with AID funds) were used for the first time in 1966 for addi-

tionality purposes. The object was to reduce substitution by forcing a recipient to purchase commodities other than those it usually purchased from the U.S. In 1967, positive lists (lists of commodities which were the only items that could be financed with AID funds) were used for additionality purposes.

From 1967 to 1969, AID worked with the Treasury and Commerce Departments through an "Additionality Working Group" of the Cabinet Committee on the Balance of Payments, which was formed by President Johnson, to refine and extend additionality measures. "Additionality Teams" visited a number of major aid receiving countries to examine additionality restrictions.

Positive lists were drawn up jointly by AID, Commerce, and Treasury according to several criteria, which included: commodities where the U.S. was competitive but poorly represented in the recipient country's market, items which would engender a follow-on demand, and items which were relatively less competitive and would not otherwise be imported by the recipient country.¹

Various techniques were used to ensure that AID funds so restricted were absorbed. Recipient countries were urged to remove any discriminatory barriers to the import of U.S. goods or to selectively reduce tariffs to favor U.S. exports. Other methods included more lenient credit terms for importers of U.S. products or the use of licensing to favor U.S. exports.

B. Impact of Tying and Additionality

The combined impacts of tying and additionality appear significant. It has been estimated that in 1959, only 40% of aid dollars were spent on U.S. goods and services.² By 1968, this figure had been raised to over 90% for all AID expenditures for commodity assistance. On a balance of payments accounting basis, AID's offshore expenditures were over \$900 million in FY 1961, \$800 million in 1963, and had shrunk to less than \$150 million in FY 1969.³ It is difficult to ascertain the relative contributions of tying and additionality requirements to this reduction in outflow of U.S. dollars. William S. Gaud, then Administrator for AID, in testimony before the Subcommittee on International Exchange and Payment of the Joint Economic Com-

¹Statement of William S. Gaud, Administrator, Agency for International Development, before the Subcommittee on International Exchange and Payments of the Joint Economic Committee, January 14, 1969.

²"Maintaining the Strength of the United States Dollar in A Strong Free World Economy," U.S. Treasury Department, January 1968.

³Ibid, p. 83.

mittee on January 14, 1969, estimated that, accounting for indirect responding effects, the net increase in balance of payments costs might have been approximately \$400 million per year from FY 1965 if tying had not been in effect and \$35 million per year greater if tying had been in effect, but without additionality requirements. The computation of this estimate will be discussed in more detail later, but one should note the assumed relative impacts of tying and additionality, i.e., additionality apparently had an impact of approximately 10% of the impact of tying in reducing the outflow of dollars and was responsible for an annual \$35 million contribution to a positive balance of payments.

C. Reactions to Additionality

While the above description may lead one to believe additionality measures were cooperatively and congenially developed and agreed to, this was hardly the case. Throughout the lifetime of additionality, constant objections to the restrictions came from both U.S. agency personnel and recipient countries. AID personnel were historically the primary U.S. critics of additionality. They objected from the outset to additionality as a constraint on their mission. They cited the following costs:⁴

- (1) Reduction in the value of AID dollars to recipient countries as goods on the positive lists were typically 10-40% more expensive than competitive products.
- (2) Encouragement of import and export controls contrary to the U.S.' avowed position of free trade.
- (3) Expenditure of time and political goodwill in the negotiation of additionality agreements with recipient countries.
- (4) Harm to the U.S. long run export position due to importers' bad experiences with uncompetitive U.S. commodities on restricted positive lists.

Continual objections came from recipient countries, particularly Latin America, as to the onerous impacts of additionality restrictions. These objections were basically the same as AID's, but prior to 1969, were not strong enough to modify the U.S. position. While AID continually took a negative view of additionality, Commerce and, particularly, Treasury defended it. Commerce's objective was to expand U.S. exports while Treasury was the lead agency assigned to improve the U.S. balance of payments. Through the sixties there was a series of Presidential directives supporting additionality and these, combined with the support of Commerce

⁴Statement of William S. Gaud.

and Treasury, caused the restrictions to continue to be developed and put into effect by the three departments.

With the election of Richard Nixon in 1968, less investment in past approaches to dealing with the balance of payments problem was evidenced. The Nixon Administration was ideologically opposed to controls on capital. Furthermore, pressure was rising from Latin America to improve trade relations and President Nixon went on public record as desiring improved relations with Latin America. In this political environment then, i.e., reduced commitment to past programs, opposition to controls, interagency disagreement, and rising foreign pressure, that on June 20, 1969, Assistant Secretary of State, Charles Meyers, announced to the Inter-American Economic and Social Council at Port of Spain, Trinidad, that the U.S. was ceasing all additionality requirements. The following examines in greater detail just how this decision was made, in particular the first six months of the Nixon Administration—January through June, 1969.

D. Participants in the Decision Process

1. THE BUREAUCRACY

As previously stated, constant internal conflict existed between AID, Commerce, and Treasury. Prior to January 1969, this conflict was resolved at mid-level bureaucratic levels in additionality meetings between the three departments. The forum for these interagency meetings was the working level of the Development Loan Committee (DLC) which examined and approved every AID loan.

The Cabinet Committee on the Balance of Payments had delegated responsibility to the DLC to insure measures were attached to aid which minimized the balance of payments impact. The DLC was chaired by AID Administrator, John Hannah, and was composed of the following members: Paul G. Clark, Assistant Administrator, AID; Joseph A. Greenwald, Assistant Secretary of State for Economic Affairs; Henry Kearns, Chairman of the Board of Directors of the Export-Import Bank of the United States; John R. Petty, Assistant Secretary of the Treasury; K. N. Davis, Jr., Assistant Secretary of Commerce for Domestic and International Business.

The working meetings were generally attended by staff members of the above individuals. These mid-level bureaucrats (e.g. GS-14) normally worked out the individual loan restrictions.

During the review of individual loans, AID personnel would bitterly protest additionality restrictions, but were inevitably overruled by other members of the committee. In rare events, the conflict

might reach the top level members of the DLC, but generally additionality restrictions were argued and implemented without great political visibility. A change in this procedure occurred, however, on January 14, 1969 when the departing AID Administrator, William S. Gaud, testified before a Congressional committee on the impact of economic assistance programs on the U.S. balance of payments.

Gaud used this opportunity to call for a reexamination of the balance of payments measures in effect, and particularly, the additionality restrictions. This statement to the Congress took the question of additionality out of the hands of the working level of the DLC and made it a higher level political issue. John Petty, then Assistant Secretary of the Treasury, International Affairs, and member of the DLC, was outraged over Gaud's testimony and felt the figures he cited were contrary to what the committee had agreed on. Working members from Treasury held similar beliefs and while the Committee continued to operate after Gaud's statement, the issue of additionality was basically out of their hands and being debated at higher levels. Between January and June, lower level bureaucrats wrote numerous memos to their superiors, and political appointees exchanged letters either supporting or criticizing additionality. For example, Robert Watson drafted memos strongly defending additionality to Assistant Secretary Petty. Petty, as a lame duck appointee from the Johnson Administration, felt powerless to exert any political weight, however. Petty was reappointed in May but a power vacuum existed in the interim. The Secretary of the Treasury, David Kennedy, had decided in March to disband the Balance of Payments Committee (which had given Petty political muscle) and wanted to take more fundamental steps to deal with the balance of payments problem. Undersecretary of the Treasury Volcker was made head of a group study on all measures dealing with balance of payments. Paul Clark, Assistant Administrator for Program, sent a memo to John Hannah, AID Administrator, laying out his desire to convince Volcker to give early and serious consideration to substantially easing AID additionality measures. Such a memo was sent from Hannah to Volcker on May 22, 1969. Clark also suggested in his memo to Hannah that the AID proposals be made at a "higher level" to gain a "more receptive hearing" and an earlier decision. On June 10, 1969 Hendrik S. Houthakker, Council of Economic Advisers, wrote Volcker in support of AID's proposal to relax additionality restrictions and Eliot Richardson, then Undersecretary of State, wrote a letter on June 9 to David Kennedy, Secretary of the Treasury, urging re-

peal of additionality. Apparently these inter-agency debates were undertaken with little or no formal consultation with the White House. The picture one receives is of much knowledge and activity at various bureaucratic levels, but in relative isolation from the White House.

2. RECIPIENT COUNTRIES

While the above interagency debates were proceeding, pressure was rising from recipient countries, particularly Latin America, to ease aid restrictions. The impact of additionality was especially great in Latin America, as the volume of its commercial imports from the U.S. was relatively high and finding "additional" goods often resulted in the requirement to buy U.S. goods not competitive on a world market. Furthermore, Latin America maintained that without additionality the funds would still be used to buy U.S. goods. On May 15-17, 1969, the Special Commission for Latin American Coordination (CECLA) met in Vina del Mar, Chile, to discuss U.S. trade and aid policies regarding Latin America. At the close of this meeting, CECLA adopted the "Consensus of Vina del Mar" which stressed:

- (1) elimination of "tied" loans and an overall easing of the terms of loans;
- (2) trade preferences for Latin American products;
- (3) stabilization of primary product markets;
- (4) expansion of Latin American exports;
- (5) lower shipping costs; and
- (6) greater access to advanced technology.

This list of "demands" was presented formally to President Nixon, by Gabriel Valdes, Foreign Minister of Chile, during a 40-minute meeting with the President; Secretary of State, William Rogers; Assistant Secretary of State, Charles Meyers; and Henry Kissinger on June 11, 1969. It was understood that the Latin American countries would be looking for a response to the consensus at the upcoming meeting of the Inter-American Economic and Social Council scheduled for June 20 in Port of Spain, Trinidad.

During the same time period, June 11-18, the President of Colombia, Carlos Lleras, was visiting the U.S. and lobbying for more favorable treatment of Latin America. President Lleras met with President Nixon on the night of the 12th and concluded his Presidential meetings the following day (June 13). Lleras, in his opening toast, called for the U.S. to "generate new patterns of trade and remove harmful practices and irritating stipulation." President Nixon, in an exchange of remarks on June 13 said "I think that next week at the economic conference that is being held at Trinidad we will see some of the first fruits of those new directions, and cer-

tainly the credit for these new departures—they will be modest to begin with, but the credit will go to you and to this visit. Without this visit we might not have moved as fast as we should have."

3. THE WHITE HOUSE

Since taking office in January, President Nixon had publicly stressed his desire to improve Latin American relations. Nixon appeared before the Organization of American States at the Pan American Union in Washington, D.C. on April 14, 1969, calling for a "new approach to Pan American problems". He went on to say "our approach is this: not what do we do with Latin America? what do we do together?" This concern for Latin America was expressed often in speeches and press conferences and on May 11, 1969, President Nixon sent Nelson Rockefeller on a fact-finding tour of Latin America. With Rockefeller were such luminaries as George Woods, past President of the World Bank, and Arthur Watson, President of the International Chamber of Commerce and the IBM Trade Corporation. Rockefeller kept the President briefed regarding his trip and provided Nixon with a talking paper to serve as background material for his conversations with President Lleras. It was common knowledge that Rockefeller felt additionality should be ended and so counseled the President. Concerning the Lleras meeting, the President received, in addition to the talking paper prepared by Rockefeller, a briefing memo prepared by the State Department with cover sheets by the National Security Council (NSC). This was standard operating procedure prior to a state visit and the memo defined additionality and gave stock defenses for it. Nowhere were figures or relative impact documented.

In addition to his desire to improve Latin American relations, the President held an avowed position against controls. The President apparently disliked virtually all types of controls, but particularly those associated with the Johnson Administration's balance of payments program. Consequently, Nixon had a predisposition to remove controls and additionality was touted as one of the more onerous controls.

The National Security Council provided the President with some background information concerning additionality. Briefings were held during the spring of 1969 in which aid and the balance of payments were two of the major topics. Undoubtedly additionality was brought up, but as the agendas and minutes of these meetings are currently unavailable it is impossible to know the level of detail and content of the discussions. Fred Bergsten was coordinating an NSC paper on all balance of payments issues, but this paper was not submitted

to Nixon until after the additionality decision was made.

E. The Decision Point

While all the above actors were involved with additionality in some way, the actual decision took place in relative isolation from most of them. As previously stated, President Nixon met with the Colombian President, Carlos Lleras, on June 12 and 13, 1969. During the final meeting only Nixon and Lleras conferred together, with Viron P. Vaky, head of Latin American affairs for NSC, acting as notetaker. After the meeting had ended and President Lleras and his entourage had left the White House, President Nixon turned to Vaky and said words to the effect of "let's get rid of it (additionality)."

As previously stated, due to restricted access to NSC files and in the absence of direct conversations with Nixon, it is impossible to know precisely how prepared the President was or on what basis the decision was made. Observers on the scene, however, felt that the President appeared unfamiliar with the concept of additionality and viewed his action largely as a way to please Latin America.

The remainder of this paper is based on this assumption.

With the above few words, a five-year-old policy died. Following those words, Vaky drafted the notes of the meeting and a decision memorandum stating that the President had decided to eliminate additionality requirements. That same day (June 13) Henry Kissinger sent a memo to the Secretary of State, Secretary of the Treasury, and the Administrator for AID, with a copy to the Director of the Bureau of the Budget, announcing the President's decision and directing that appropriate action be taken in time for the decision to be announced at the Inter-American Economic and Social Council meeting scheduled for June 18.

F. Implementation

Apparently, the Presidential decision was implemented quickly, efficiently, and with virtually no debate as AID, the agency responsible for implementation, was in full agreement with the decision (except for some concern as to the impact of the decision on the U.S. Congress) and the top level people in Treasury, i.e., Kennedy, were interested in taking a more integrated and fundamental approach to the balance of payments problem.

The major forces which had supported additionality under the Johnson Administration had disappeared under the Nixon presidency. Hence, opposition was almost nonexistent.

On June 18, 1969, John Hannah, AID Administrator, sent a memo to the Secretary of State outlining AID's plans to implement the President's decision. The memo stated that Meyer would make a statement at Trinidad and that Hannah would send out a Policy Determination to all AID overseas missions. Drafts of both items were given and copies of the memo were sent to Kissinger and the Secretary of the Treasury, David Kennedy. On June 20, 1969, the Department of State sent telegrams to all country desks and all American Republic Diplomatic posts that additionality requirements were eliminated, Meyer would make an announcement on June 20, Hannah would follow with a policy directive, and in the future AID would permit much broader positive lists.

The President's decision was publicly announced through Charles Meyers' opening statement to the Inter-American Economic and Social Council at Port of Spain, Trinidad, on June 20:

"Even at this early state in this portion of our dialogue, there are several points in the Consensus of Vina del Mar to which we can respond. . . . In our aid program we wish to reduce to the extent possible requirements and practices extraneous to development which can impair the quality of our assistance. In this regard the President has authorized me to say that, effective immediately, the present practice of applying so-called 'additionality' requirements to U.S. aid will be discontinued. This action reflects the earnest desire of the President and his administration to improve the effectiveness of our assistance in doing what it is supposed to do: promote development.

"Moreover, the President will set up a task force of distinguished citizens to make a comprehensive review of U.S. assistance programs. One of the questions it will consider is the appropriateness of the other special conditions attached to our assistance that are mentioned in the consensus of Vina del Mar."

On June 24, 1969, Hannah issued a Policy Determination on additionality and from all accounts implementation from that point on proceeded smoothly.

The above represents a description of the decision process and its background. Based on that description, the remainder of this paper attempts to assess the process, the outcome, participating organizations, postulates the impact of alternative organizational arrangements, and presents some general recommendations for improved decision-making.

II. ASSESSMENT OF THE DECISION PROCESS

A. Summary of the Process

The decision process can be concisely summarized. Additionality was debated between AID, State, Commerce, and Treasury for several years, but most heatedly during January-June, 1969. This debate had little formal involvement with the White House, and except for Gaud's speech, the Congress had no formal involvement either. Richard Nixon, independently of this debate, had taken a position against controls and desired to make a goodwill gesture to Latin America in response to rising criticism of U.S. trade and aid policies. After an extensive lobbying effort by the Colombian Government, the President unilaterally decided that the elimination of additionality would serve both objectives (remove controls and improve Latin American relations) at a nominal cost to the U.S. Once the decision was made, implementation proceeded efficiently.

In the following discussion the decision process has been divided into policy formulation and implementation. For each area, specific questions are posed and answered to assess the adequacy of the process.

B. Assessment of the Policy Formulation Process

1. Was a reasoned conception of U.S. objectives present?

The critical objectives in President Nixon's mind appear to have been the improvement of U.S. relations with Latin America and the removal of controls on trade and capital flows. One cannot criticize the process on the grounds of lack of well specified objectives, but existence of objectives is only the first requirement of an adequate process.

2. Was the best obtainable information relevant to the decision made available?

Much analytic data concerning the impact of additionality existed at the time, but these data apparently did not reach the President immediately prior to the decision in any type of decision or options memo. Various levels in the State Department had analyzed additionality over a period of years and figures were continually examined by the Development Loan Committee, but none of these reached the President. The Volcker Group and NSC were examining additionality in the context of balance of payments, but the date for the completion of their studies was after the Presidential decision and

again, their work was not utilized by the President. The only formal information received by the President prior to the Lleras meeting appears to have been from Nelson Rockefeller and the standard briefing memo prepared by the State Department. Rockefeller participated in informal conversations with the President and wrote a talking paper for Nixon as preparation for the latter's meeting with Lleras. The State Department memo covered a range of issues which might surface in the Nixon-Lleras meeting but the treatment of additionality was quite superficial. The State Department gave a definition of additionality, guessed at what Lleras would probably complain about (the clumsiness of the policy), and provided Nixon with some stock defenses of the policy, e.g., the U.S. balance of payments requires such policies, U.S. taxpayers demand assurances that money is spent on U.S. products, and the administration of aid is of interest to the Congress. No specific dollar figures were presented nor could the President have received any idea of the magnitude of the impact of additionality from this document. In essence then, while rather detailed analyses existed at various levels of the government, data at this level of detail apparently never reached the President. The State Department's briefing was superficial and neither Rockefeller nor Nixon pretended to be international or monetary economists.

3. Were the implications of the decision effectively canvassed and understood?

As previously stated, the uppermost objectives in the President's mind appear to have been the improvement of relations with Latin America and the removal of controls. As Nixon apparently had little access to the detailed analysis of the economic impact of additionality, it would seem fair to surmise that he did not canvass all the implications. He was either oblivious to this consequence or assumed that the impact was insignificant. That the latter was apparently true does not excuse the deficiency of the process. The domestic economic ramifications of this decision appear to have been relatively ignored. One might suggest that if the economic ramifications were great the President would have been aware of them, but this is a very tenuous argument. Additionality had potentially significant impacts other than those concerning our relationship to Latin America, e.g., U.S. exports, balance of payments, and apparently these were not considered in any detail when the decision was made.

4. Was a full range of realistic alternative courses considered?

The simple answer here would appear to be "no". Nixon had a meeting with Lleras. Additionality was raised on one of the U.S. policies Lleras found objectionable. Nixon was striving for improved Latin American relations, was ideologically

opposed to controls, and additionality appeared to be one item he could easily be rid of. The elimination of additionality was simple, straightforward and an obvious gesture of goodwill. At the time of the decision, apparently no effort was made to view additionality as part of a larger reform program and no alternatives were systematically raised. Certainly there were other ways to improve Latin American relations, but this decision appeared to be more an isolated goodwill gesture in response to a specific complaint rather than an element in a comprehensive program.

5. Were all appropriate participants consulted?

Probably the most major criticism of the formulation process would be its unilateral nature. As discussed, many individuals and organizations besides the President were involved or concerned with additionality but none were involved in the decision or consulted prior to it. The lack of coordination between the President and the bureaucracy is undoubtedly the chief deficiency in this issue. The decision was made by a man with a relatively unsophisticated understanding of the economic issues at hand, but the undisputed power to act.

6. Was the decision taken at the lowest level possible?

Obviously the decision was made at the highest level. Other levels, e.g., the Secretary of State, might have been able to make the decision, but there was never the initiative to do so. The nature of this decision, i.e., a political goodwill gesture, caused it to be made at the Presidential level and, as such, the level was probably justified. The decision probably could have been made at a lower level, however, if political versus economic trade offs were considered.

7. Was the decision process as open and public as was consistent with its nature?

The policy formulation was secret as it occurred entirely in one man's head. Since apparently this was a spot decision and no one knew Nixon was considering it, the issue of openness is not really germane. Once made, the decision itself and the implementation process were both made public.

C. Assessment of the Implementation Process

1. Was the decision communicated to those responsible and effected in a clear and timely fashion?

The answer to this question apparently is a resounding "yes". While the policy formulation process has been severely criticized, the implementation process receives high marks. On the day the decision was made (June 13), it was communicated to the bureaucracy. State and AID immediately put

together a lengthy memo and plan for implementation and reported on them to Kissinger. Once consummated, the decision and implementation plan were made public through Assistant Secretary Meyer's speech, press releases, and newspaper articles.

2. Were the actions of those responsible monitored to insure compliance?

As stated above, Kissinger and the Secretary of State were kept informed of the implementation plan and the progress of implementation. This aspect of the process appeared to flow very smoothly.

3. Were the results of the decision noted and assessed?

No *post facto* assessment of the decision appears to have been made. Apparently, no one raised this issue and no one saw a need or desire to attempt to record the impact. While this can be cited as a weakness of the process, it is understandable, given the relative insignificance of the issue and the evaporation of concern once the President made the policy change.

D. Summary of the Critique of the Decision Process

In summary, the decision process can be severely criticized, due in large part to the isolation of the Chief Executive from the bureaucracy. Those who presumably had the most knowledge of the impact of additionality were removed from the decision itself, while the decision-maker appeared relatively uninformed, and did not actively consult or have the apparatus to be consulted by those expert in the field. The decision-maker did have, however, the power and opportunity to make an unrestricted commitment. The appropriateness of the decision is not being questioned; however, the process by which the decision was made had serious shortcomings.

III. ASSESSMENT OF THE OUTCOME

Most people seem to agree that additionality was not a major benefit to the U.S. and, hence, giving it up hurt little and had a small, but positive foreign relations impact. While Gaud's estimate of the impact of additionality (\$35 million/year) has been disputed, in most quarters it was considered reasonable.⁵

⁵The figure of \$35 million per year was computed as follows. The U.S. commercial market shares for 15 major recipients were examined for 1958-1960. In countries where U.S. commercial market shares fell off, it was assumed the entire decrease was due to substitution of aid dollars, even though the decrease could be

The major criticism of AID's protest of additionality was that all their figures were based on average, not marginal rates. There were indications that for many recipient countries their marginal propensity for U.S. imports was substantially lower than the average market share of U.S. products. Consequently, for some countries an increase in AID dollars might have significantly greater balance of payments impact than AID predicted. It should be noted, however, that over time the aid program has decreased in size and hence the above problem has become virtually academic.

In addition, at the time of the decision, both the President and the Treasury Department had grown disillusioned and philosophically opposed to the utilization of non-market measures to deal with the balance of payments problem. At the start of the Nixon Administration, Treasury was favoring market approaches aimed more directly at the underlying issues: industry competitiveness and the exchange rate. Consequently, no avid supporters of additionality existed. Therefore, the costs cited by AID in trying to implement additionality and the overall negative reaction of the Latin American countries appear in retrospect to outweigh any economic benefits to the U.S.

In hindsight though, one might question just what political gains the President ultimately received with his decision to suspend additionality requirements. While Colombia and other Latin American countries were very happy to be rid of additionality, this was only one of their demands. U.S. action on other fronts did not come nearly as fast and overall there did not appear to be a major change in U.S.-Latin American relations. This does not necessarily detract from the correctness of the additionality decision, but it should be pointed out that by itself, additionality caused no major improvement in foreign relations as a total program or more sweeping response might have.

IV. ASSESSMENT OF PARTICIPATING ORGANIZATIONS

It is very difficult to assess the performance of participating organizations, independent of the decision process, as basically none were involved. As

due to other factors, such as worsening of U.S. competitiveness. The total amount of decrease was found to be 10% of aid-financed exports in 1963-1964 and 2% of aid-financed exports in 1966-1967. This loss was modified by a calculation of responding, i.e., increased U.S. export sales that result from AID dollars spent abroad. AID sources used an estimate of approximately 50% for responding. The impact of this assumption is to cut in half the outflows caused by substitution. Taking these two assumptions together (10% substitution rate and 50% responding) AID arrived at the \$35 million per year figure.

previously stated, AID, State, and Treasury were examining additionality and other balance of payments measures, but their efforts were independent of the President. The National Security Council had briefed the President on the larger issue of aid and balance of payments and was in the process of writing a critique of balance of payments policies. Apparently, however, the Council had not reached any conclusions nor made any recommendations concerning additionality at the time of President Nixon's action. Rockefeller appeared to have made some suggestions during his trip, but his formal recommendations were in a paper which was not completed until October 1969. Congress was totally uninvolved. The only other formal participants were Valdes and Lleras. Theirs was a typical lobbying effort and, at least as far as additionality was concerned, appears to have been quite effective.

V. THE PROBABLE PERFORMANCE OF ALTERNATIVE STRUCTURES

A. Introduction

This portion of the paper comments on the probable performance of alternative organizational arrangements. The four models to be examined are:

- 1) A White House centered system (Model I)
- 2) A substantially strengthened State Department (Model II)
- 3) Marked decentralization of operational responsibility (Model III)
- 4) A "two-tiered" system in which the State Department (headed by a Secretary of Foreign Relations) is subordinate to an independent Secretary of State responsible for policy development (Model IV).

B. Strong White House

Under Model I (Strong White House), tight policy control and supervision of all foreign policy activities would be exercised by a powerful White House staff, managed by one or two Assistants to the President who would be more influential than Secretaries of State, Treasury, and Defense. As the major criticism of the additionality decision process has been the lack of coordination between the President and the bureaucracy, and the President's unpreparedness, such a revision would be beneficial. A strong White House staff would provide better links between the President and the bureaucracy and a formal focal point for international affairs. In this case, an expanded staff might have been alerted

by the consensus of Vina del Mar and prepared an expanded options paper for the President prior to his meeting with Lleras. Knowing that additionality would probably be raised by Lleras, they could also have canvassed and channeled more specific information from the State Department and the Volcker Group to the President.

The existence of such a staff does not, however, insure its use. While the President may feel more comfortable with consulting someone on his own staff, procedures would still need to be implemented to assure timely briefings. Providing for an effective information flow from the bureaucracy may also be difficult. The State Department could have expanded upon the impacts of additionality in their briefing memo, but they had no idea that a decision might be made. NSC staff such as Cooper and Bergsten undoubtedly understood additionality and could have provided detailed advice to the President but were never asked.

Under a strong White House system implementation would still have to be carried out through the appropriate agencies, and careful monitoring would be needed to insure compliance. As policy control was increasingly removed from the bureaucracy, their willingness to implement policy might decrease. At least for additionality, though, this would not appear to have been a major stumbling block, largely because the implementing agencies agreed with the decision and hence probably did not care that they were not consulted. However this might not always be the case. A more serious shortcoming is that such a system would even more severely constrain Congressional knowledge, involvement and control of the decision process, but it could be no worse than what actually occurred.

C. Strong State Department

Under a strong State Department (Model II), the State Department would provide strong leadership and oversight over the full range of foreign affairs, including policy development, coordination and implementation. A positive effect of this model would be to elevate the role of one individual (Secretary of State) and hence increase the probability of an additional individual being involved in the decision-making process. Even with a strong State Department it is difficult to predict if they would have been more involved in the actual decision, as the initiative was due to a personal conversation between two presidents. Had Model II been in effect, stronger lobbying on State's part (presumably right to the President) prior to the decision would probably have oc-

curred. However, a serious shortcoming of the additionality decision was the lack of a comprehensive examination of the domestic economic impacts of additionality and it is questionable whether a strong State Department could remove itself from its primary focus on foreign affairs. In this case arguments in favor of additionality would probably not have received warranted emphasis and the information presented might be biased or deficient. Commerce and Treasury would still have been taking contrary positions to State and this disagreement might require resolution at a higher level with no provision for an entity other than State to handle this resolution. Consequently many of the same problems would still exist, possibly even exacerbated by State's natural bias and compounded by its new power and influence. In sum, given the long history and existing biases within the State Department regarding their allegiance, it is doubtful that a strong State Department, expected to coordinate all foreign policy issues, would have resulted in an improved decision process with regard to additionality.

D. Decentralization

The decentralized alternative (Model III) consists of multiple and essentially co-equal, often competitive, power centers with no single individual preeminent under the President. While the major shortcoming of Model II would be the provision of a biased focal point, Model III is deficient in not providing any focal point. A cross-cutting issue such as additionality needs a high level focal point if information is to be channeled and synthesized for the decision-maker. One solution to this problem under Model III would be the delegation of decision-making authority to the various entities. In the case of additionality, the President might have looked to one agency, e.g., Treasury or State, to make a decision. The question exists as to whether any individual agency would have the proper perspective to make a decision cognizant of all of the impacts. In this case, it is doubtful that a single agency would have been sufficiently removed from its departmental objectives to take such a comprehensive view. This problem might be resolved by structuring some form of interagency decision-making process among involved agencies, but historically, this has not proven effective. The process normally is dominated by one actor or another due to personalities involved, historical precedent, staff capability, preparedness, and the positive or negative impact of the decision on one or another of the participating agencies.

In addition, any form of decentralization would

probably not have provided information on a more timely basis, i.e., before the Lleras-Nixon meeting. If one or several agencies had been in the midst of reaching a policy determination on additionality (as in effect the Volcker Group was doing) no assurance exists that the President would have deferred to such an entity and not gone ahead with his goodwill gesture. In summary, the decentralized alternative would appear ineffective for dealing with a cross-cutting decision such as additionality, unless an effective structure for group decision-making could be formulated and coordination between various agencies and the President distinctly defined.

E. The Two-Tiered System

The two-tiered system (Model IV) combines the roles of the National Security staff head and the Chief Foreign Policy Advisor to the President under the title Secretary of State and places him in command of a substantial staff (200). The State Department would be headed by a cabinet level Secretary of Foreign Relations and would be restricted to reporting, representation, negotiation, and some working level geographic coordination. While the strong White House model would create a powerful coordinating staff, Model IV creates an independently powerful decision-maker. In this manner, the Secretary of State of Model IV would be stronger than the Presidential assistant of Model I and his strength would somewhat diminish the ability of the President to act unilaterally. With regard to additionality, the Secretary of State, under Model IV, would probably have attended the meeting with Lleras and no commitment would have been made without his agreement. This presumably would have improved the process by having another individual involved, but objectivity of such a Secretary of State comes into question. Would he maintain the bias of the current State Department or would he be able to give equal weight to the arguments of other, more domestic oriented departments such as Commerce and Treasury? History seems to weigh against such objectivity. The impact of personality would also be very great under this model, due to the power of the Secretary of State. A very strong personality would have major power at his disposal; a weak personality would probably not perform much differently from past Secretaries of State. He would organizationally be higher than any domestic secretary, and might sacrifice domestic ramifications for foreign policy gains where the two were not mutually compatible. The benefits of this model would appear to be in the provision of a

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clear focal point for issues such as additionality, increased representation and information in foreign affairs decision-making, and visibility and accessibility to the Congress. The negative attributes would be the possible personal bias and shortcomings

of the Secretary and the elevation of foreign affairs to a position conceivable above domestic affairs with ramifications contrary to the "public interest" when the public interest lay with a more domestic orientation.

Two International Monetary Decisions

W. H. Bruce Brittain
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I. THE DECISION TO SUPPORT CREATION OF MAN-MADE RESERVE ASSETS: 1965

A. Introduction

Several issues were resolved by the American decision to support creation of man-made reserve assets. The one publicly pronounced was how to ensure the satisfactory growth of world liquidity while maintaining balance in the U.S. external accounts. The U.S. deficit had been the major source of international liquidity—the U.S. dollar was widely used both by central banks and private individuals as a means of settling debts—and if the deficit disappeared that source of additional international reserves would disappear. As a result, individual countries' money stocks would grow less quickly, deflationary pressures would emerge, and the volume of world trade would fall. There were related issues.

The French government, in particular, argued that allowing growth of international reserves to be determined by the U.S. balance of payments would put the U.S. in the position of controlling the rate of monetary expansion for the world as a whole. To the French, uncertainties of gold supply conditions were preferable to American control of financial aggregates. Finally, in 1965 the French supported their view by threatening to demand conversion of their accumulated dollar assets into gold. Such a move would have reduced the gold currency ratio in the United States to below its legal minimum. This raised public concern with the issue of monetary reform.

Expansion of international liquidity would have been unnecessary had the United States been able to float the exchange rate. But there was little support for this alternative, either domestically or overseas. In theory, floating rates might have

worked well, but there was little practical experience to support that possibility.

In addition, the United States felt that its set of policy choices was overly restricted by existing international monetary arrangements. Every other country could use its exchange rate as a tool for maintaining external balance while the United States could not—the rest of the world would not allow it. The governments of foreign countries were interested in preserving the currently prevailing exchange rates and would counter any change in the value of the U.S. dollar against their currencies by either revaluing or devaluing—whichever was appropriate—when American action was taken. The dilemma was this: in a many country world, there is one fewer independent exchange rate than there are countries.

That is to say, if every country but one fixes its exchange rate, the exchange rate of that one country against every other country is fixed too. The United States was that one country in the mid-1960s.

Among other issues, the Kennedy Round negotiations of the General Agreement on Tariffs and Trade were at stake. Too much pressure by the Americans on issues of international monetary reform could have hindered these negotiations.

Another issue was how to finance U.S. payments deficits if the actions taken by the President and the Congress failed to achieve external equilibrium. According to the official line, external accounts were going to improve but private reservation was expressed on that score. In the event that deficits persisted, the creation of man-made reserve assets would be an additional means of prolonging the period of non-adjustment. The thrust leading to the Gold Pool, the General Arrangements to Borrow (GAB), the creation of swap arrangements among central banks (agreements to lend certain currencies against an obligation for repayment at a specified date), and Roosa bonds (special Treasury bonds issued to foreign governments) could have

led to the American position on man-made reserve assets—they would have been another means of financing the U.S. deficit.

A final issue—tied to the French position on control of the international money supply—was how to achieve some measure of monetary integration among nations while moving towards a democratic control of world financial aggregates. These goals were held to be worthy of themselves—they could be satisfied by the creation of a man-made reserve asset that would serve as the basis for world monetary expansion.

B. The Process

1. AN OVERVIEW

The decision to negotiate creation of a man-made reserve asset was formally announced on July 10, 1965 by Henry Fowler, the Secretary of the Treasury, before the Virginia Bar Association at Hot Springs, Virginia. The U.S. commitment to negotiate international reserve asset creation came earlier, in February of 1965, just prior to President Johnson's February 10 balance of payments message to Congress.

The process leading up to the decision was a long one, and it involved considerable intergovernmental negotiation. The intergovernmental process began as early as 1961 when, on February 6, President Kennedy addressed Congress on the subject of the U.S. payments deficit and the potential inadequacy of international reserves inherent in the slow growth of the world's gold stock. After the President's 1961 message to Congress on the balance of payments, and largely in response to the situation of inadequate gold reserves, the Governors of the International Monetary Fund (IMF) supported proposals for borrowing agreements among countries to finance balance of payments deficits.

The governments of countries involved in these negotiations—the Group of Ten (G-10), including Central Bank Governors and Finance Ministers of the U.S., Canada, France, Germany, the United Kingdom, Italy, Belgium, Switzerland, the Netherlands, and Japan—reached an agreement in Paris in December of 1961. This agreement, called the General Agreements to Borrow, became effective in 1962 and was renewed in 1966.

In October, 1963, the Finance Ministers and Central Bank Governors of the G-10 asked their Deputies to “undertake a thorough examination of the outlook for the functioning of the international monetary system and of its future need for liquidity.” In August, 1964, the Study Group on the Creation of Reserve Assets (or Ossola Group—named after its chairman, Rinaldo Ossola, of the Bank of

Italy) was formed to study alternative methods for solving the reserve shortage problem. The group involved technical experts from the G-10 central banks and finance ministries. Their report was submitted in May, 1965 and was made public in August, 1965.

At the annual meeting of the International Monetary Fund Board of Governors in 1965, the G-10 received responsibility for examining reserve asset creation proposals and determining whether agreement could be reached among the governments concerned. At The Hague in July, 1966, the Ministers and Governors of the G-10 considered a report of their Deputies (known as the Emminger Report), and one from Working Party Three of the Organization for Economic Cooperation and Development (OECD). The deliberations included the Secretary General of the OECD, General Manager of the Bank for International Settlements (BIS), and the Swiss Minister of Finance. Working Party Three (WP-3) had been established in 1961 as a sub-committee of the Economic Policy Committee of the OECD. Their purpose was “the promotion of better international payments equilibrium” and their terms of reference suggest that they would “analyze the effect on international payments of monetary, fiscal and other policy measures.” In the communique issued by the Governors at this time, the Deputies of the G-10 were requested to begin more negotiations. These took place between the Deputies of the Ten and the Executive Directors of the IMF throughout 1966 and 1967.

Early in 1967, at the London meetings of the G-10, it became obvious that the articles of agreement of the Fund would have to be altered if the reserve asset proposal were to be accepted. Detailed agreements were reached at the G-10 meeting in London during August, 1967. The SDR plan submitted by the joint committee of the Fund Executive Directors and the Deputies of the G-10 was supported in principle at the 1967 annual meeting of the International Monetary Fund in Rio de Janeiro. On April 15, 1968, the Executive Directors of the Fund submitted the details.

The decision by the President (February, 1965) to support international man-made reserve assets, and the decision by Henry Fowler to announce American preparedness to negotiate, were made with dispatch. The first involved the President, Douglas Dillon, and Francis Bator, then Deputy Special Assistant to the President for National Security Affairs. The second involved the President, Henry Fowler, and Bator. The first decision was made at the urging of Bator. The second was made for two reasons. First, an intergovernmental process had generated substantial technical background support for the reserve asset proposal. Second, an organizational structure had recently been

set up within the Executive branch to handle development of a U.S. position.

The organizational structure involved, most importantly, the Deming Group and, to a lesser degree, the Dillon Committee. These were established by a memo from President Johnson to Secretary of the Treasury Fowler on June 16, 1965.

2. DECISION POINTS

There were four notable decision points in the process within the United States government—first, the message on the balance of payments delivered to the Congress by President Lyndon Johnson on February 10, 1965; second, the creation, on the President's request, of the Deming Group and the Dillon Committee in June, 1965; third, the announcement of U.S. readiness to negotiate by Henry Fowler, Secretary of the Treasury, in his July 10 speech; and fourth, the trip to Europe and the talks by George Ball and Henry Fowler with various European officials.

The President's address to Congress is notable for the final paragraphs which clearly state why the time was ripe for negotiations on international reserve assets; President Johnson pointed out that the U.S. external accounts were likely to balance in the months ahead. This would stop the flow of dollars—a major source of international liquidity—to the rest of the world. An alternative source of world liquidity had to be found. The U.S. argued this should not involve returning to the gold standard, where the supply of international liquidity would be determined by the whim of the major gold producers and the accidents of technical supply conditions. The initiative for the February message came from Bator. This is clear from a comparison of the Treasury Department's draft proposal of the President's message to Congress—submitted for interagency review on February 4, 1965—and the final statement. The Treasury draft cited the "possible" need for man-made reserve assets at some indefinite point in the future. The draft argued that current arrangements for handling the U.S. payments were adequate. The final statement argued for immediate consideration of reserve assets. This position was suggested by Bator, in the form of a revised draft of the Presidential message.

Prior to the President's message, some misgivings were expressed about reserve asset schemes. Chairman Martin of the Federal Reserve System Board of Governors, for example, indicated serious reservations about the decision. European negotiations at the time were at a delicate stage—the Kennedy Round of talks within the framework of the General Agreement on Tariffs and Trade (GATT) had bogged down. In addition, current international monetary agreements were in jeop-

ardy. A tentative understanding had been reached with the Europeans during discussion at G-10 meetings during 1963 and 1964—primarily with Otmar Emminger of the Deutsche Bundesbank, their spokesman on this issue. The understanding was that the issue of reserve asset creation would be held in abeyance. A major problem in both these considerations was how the French would react. An American initiative that was too strong, too quickly proposed, or too American, could have led the French to withdraw support from trade and monetary agreements.

The Fowler speech was made against a background of work by the United States Treasury (through the Group of Ten and the Ossola Committee, where it was represented by several technical experts). The Ossola Group provided the assurance that a reserve asset scheme was feasible. In its deliberations, the Ossola Group was supported by the Machlup Study Group—a collection of 32 economists from major academic and financial centers.

In addition, the terms of reference of the WP-3 had shown clearly the influence of U.S. concerns. In its studies the working party assumed these premises: 1) adjustment is a process aimed at external and international equilibrium, 2) rules of behavior should be developed to share the burden of adjustment among both surplus and deficit countries, and 3) these rules should not compromise national policy goals.

That the United States officials should pursue study of reserve asset creation through an international agency, such as the G-10 or the OECD, rather than through the IMF is an interesting issue, and sheds light on the American economic policy-making process. One apparent motivation was to find means of financing the U.S. balance of payments deficit. The aim of such an institution as the IMF was, of course, not the same. The IMF was concerned with generating world monetary integration and pursuing a rational monetary policy at the world level. In the IMF view, individual countries' problems were secondary to the interests of the international financial community. The IMF hastened individual countries' adjustment to external disequilibrium.

During this period, the United States was chronically in deficit. The IMF recommendation for curing such a deficit might have been to alter domestic monetary and fiscal policies—slow the rate of monetary expansion, for example. Heeding such advice would have severely restrained a nascent industrial expansion. It was clearly in the interests of the United States not to accept the IMF position.

As in negotiations leading to the General Agreements to Borrow, the formation of the Gold Pool, the engineering of swap arrangements, and the

creation of Roosa bonds (by Robert Roosa and his Assistant Secretary, John Leddy), the United States chose to initiate a study outside the framework of the International Monetary Fund. This became evident in 1963 when Roosa induced the G-10 to consider issues of monetary reform. Creation of man-made reserve assets outside the framework of the IMF made it more probable that the final proposal would reflect the interests of the governments concerned.

As a matter of course, officials of the IMF, notably Pierre-Paul Schweitzer, Managing Director of the Fund, and Frank Southard, Deputy Managing Director, were vocal in their protestation of this procedure, arguing that the IMF should be responsible for proposing a man-made reserve asset scheme. Their protest was that the Group of Ten's mandate included only the very specific issue of how to provide additional sources of funding for the IMF, through the GAB, and not the very general issue of how best to pursue international monetary reform.

A compromise was reached in 1965 when a Secretariat was established in Paris to circulate IMF and G-10 documents. Fund representatives began participating in the reserve asset creation deliberations through contributions to the Ossola Group and WP-3. The Secretariat had participation from the Organization for Economic Cooperation and Development, the Bank for International Settlements, the International Monetary Fund, and an observer from the Swiss National Bank. Joseph Gold and Jacques Polak were representatives of the Fund at the reserve asset creation discussions.

The Fowler speech was also made against the background of discussions within the U.S. government itself. These had ceased within the Long-Range International Payments Committee (LRIPC)—an interagency committee formally established in 1961 to deal with international monetary issues. The discussion, at the time of the Fowler speech, occurred primarily in the Deming Group.

The creation of the Deming Group was proposed and promoted by Francis Bator. Also established to handle issues of an international monetary nature, the Deming Group was designed to improve on the Long Range International Payments Committee, and the informal procedure for developing the substance of U.S. positions through the Treasury and through the Treasury's preparation of submissions to the Ossola Committee and WP-3.

The Deming Group brought together those in government service at the senior assistant secretary level from major economic agencies. These individuals had both an interest in the technical issues of international monetary reform, and the expertise to handle them. It had an advantage over the LRIPC for this reason, and because the LRIPC—formerly an interagency group—was primarily a

technical group dominated by agency views and attended by lower level officials. In addition, it did not have the Presidential mandate afforded the Deming Group.

Throughout the deliberations on whether to create the Deming Group—and whether to nudge the locus of control for monetary discussions away from the Treasury—Secretary Fowler was an active proponent of the scheme. The guiding principle behind the Deming Group was to establish responsibility for the group's direction with the participating White House officer, despite the fact that the Chairman was to be Fred Deming—Undersecretary of the Treasury for Monetary Affairs.

On June 2, 1965, Bator first drafted a proposal for establishing the group. Deming returned a second draft to Bator on June 4, 1965. The intent of this draft was to re-establish the committee as a Treasury group. Bator re-drafted the proposal—with the support of Fowler—in order to reach a compromise that left the final frame of reference closer to Bator's original proposal than to Deming's counterproposal. What ordinarily would have been an intrusion on Treasury's private domain was welcomed. This is due to the attitude of Fowler and Deming, who felt the need of as much political and economic acumen as was available in the Executive branch for the reserve asset negotiations.

An outside advisory committee—the Advisory Committee on International Monetary Arrangements, or the Dillon Committee—was also established.

Both decisions were announced on June 16, 1965 in a memorandum from the President to Secretary Fowler. The memo reads:

MEMORANDUM FROM THE PRESIDENT TO THE SECRETARY OF THE TREASURY

June 16, 1965.

Memorandum to the Secretary of the Treasury
Subject: Forward planning in international finance

It has become clear to me that we must develop policies, covering a considerable period in the future, with respect to the development of the international monetary and payments system and the role of the United States in the system. The actions we have taken to bring our payments into balance will, over time, put substantial pressure on reserves abroad and hence on international trade and the growth of the world economy. The Free World will need some way of systemically producing the additional liquidity which has been supplied by the payments deficits of the United States. This will require international agreement among the nations which are the primary sources of liquidity. I recognize that considerable study has been devoted to these issues by the Long-Range International Payments Committee, chaired by the Treasury. However, I believe that it would now be desirable to push forward with

more intensive effort, so as to be fully prepared for full-scale negotiations when the time is ripe and right.

In the light of your leading responsibility within the Government for forward planning on international monetary problems, I should like you to organize a small high-level study group to develop and recommend to me—through you, and the other principals directly concerned—a comprehensive U.S. position and negotiating strategy designed to achieve substantial improvement in international monetary arrangements. The Study Group should consist of appropriate senior officials from the Treasury, the State Department, the Council of Economic Advisers, the Board of Governors of the Federal Reserve System, and the White House. I understand that you would have in mind that it would be chaired by the Under Secretary of the Treasury for Monetary Affairs.

Without attempting to lay down rigid terms of reference, the following are some of the questions I have in mind:

1. What are the possible means of reducing the United States' vulnerability to political and economic pressure through the threatened conversion into gold of any overhang of official dollar balances?

2. What are the possible and feasible means of assuring that credit will be available to deficit countries in amounts and on terms—maturity, interest, and automaticity—consistent with the realities of the adjustment process in a world of fixed parities where sharp deflation is not an acceptable alternative?

3. How can we assure that the amount of reserve assets will expand at a rate which will facilitate maintenance of full employment, reasonably stable prices, and expansion of world trade? Any revised or new system for creating reserves should insure against the instability inherent in a two-reserve-asset or multiple asset arrangement in which one asset is judged to be absolutely safe in terms of convertibility into the other(s), whereas convertibility the other way is unavoidably judged more uncertain.

The Study Group should explore which of the elements in the various proposed schemes of reform would be acceptable to the United States, which entirely unacceptable, and which might well be appropriate for negotiation.

In considering these questions, I would like the Study Group to take full account of the interrelations between our monetary and economic objectives, and our more general foreign policy objectives. It should explore the entire range of actions open to the United States which would bring to bear our economic strength, and our political strength, to secure reforms which would be desirable in terms of the full range of our objectives. It

should take into account a variety of contingencies with regard to the cooperation of other governments and explore what unilateral steps the United States might take to achieve progress. It should spell out alternatives with respect to timing.

In addition to the above general questions, the Study Group should give urgent and thorough consideration to the special situation of the United Kingdom, which is of major foreign policy concern. Specifically, it should consider what steps the United States could take to arrange for a relief of pressure on sterling, so as to give the United Kingdom the four- or five-year breathing space it needs to get its economy into shape, and thereby sharply reduce the danger of sterling devaluation or exchange controls or British military disengagement east of Suez or on the Rhine.

The Study Group should be small and it should work in the strictest secrecy, with knowledge of its existence and access to its work available on a strict need-to-know basis. Its work would not be a substitute for the continuing work, under your chairmanship, of the Cabinet Committee on the Balance of Payments (and the Executive Committee), the National Advisory Council on International and Financial Problems, and the Long-Range International Payments Committee. It is my desire that these committees continue their valuable work.

I believe it would be useful for you also to establish a panel of consultants, consisting of people outside of Government with broad knowledge in this field, who would be available to you for counsel. This consultant group might also be relatively small and include people from the academic, banking, and business communities. It would be appropriate to include people formerly with the Government, such as Douglas Dillon, Robert Roosa, and Kermit Gordon.

I should like to receive a progress report on the work of the Study Group by August 2, 1965, and from time to time as appropriate. In addition, I shall expect periodically to meet with you and the other officials concerned to discuss the problems and prospects.

LYNDON B. JOHNSON.

The third notable event was the speech by Secretary Fowler on July 10, 1965 before the Virginia Bar Association in Hot Springs, Virginia. At that time, the Secretary announced the United States was ready to negotiate the creation of man-made reserve assets. The decision to make the speech was apparently taken by Fowler and was cleared by the White House through Bator, who had been sent a draft of the speech three days before and was asked to comment.

Three considerations explain why the speech was given then. First, the WP-3 had been given considerable time to explore all possible reserve asset

schemes—the Ossola Group was to publish its final report in August of 1965 and had already (May 1965) circulated it on a limited basis. Thus, the technical issues of reserve asset creation had received considerable attention. This attention had involved the active participation of American officials, thus the U.S. government was aware of all alternatives. Second, the Deming Group was in place and functioning. These two organizations would weigh one alternative against the other. Fowler had full confidence that these groups were adequate to the task. With much technical groundwork done and able policy-making committee structure in place, the time was ripe for announcement of the decision that had implicitly been made by President Johnson prior to his February 1965 message to Congress. Third, hearings before the Joint Economic Committee provided additional support.

The fourth critical event was the European trip (Sept. 1 to Sept. 10) by Secretary Fowler and Secretary Ball. The trip is notable because it established a negotiating position vis-à-vis the Europeans at a time of very sensitive international deliberations.

Fowler's singular contribution was the contingency aspect of man-made reserve assets. This did a great deal to make the proposal for negotiations announced in Fowler's Hot Springs speech more palatable to the Europeans. American motives on the issue of reserve asset creation were suspect—precisely because reserve assets could further finance the endemic U.S. balance of payments deficit. That the reserves would be created only by the collective judgement of the IMF Board of Governors placated this fear.

II. THE ANNOUNCEMENT OF POST-SDR OBJECTIVES, 1972

A. Introduction

The issue resolved by the announcement of post-SDR objectives was one raised in the late 1960s and early 1970s. It was whether to present a U.S. position on international monetary reform, when such proposals should be made, and what form these proposals should take. Public resolution of the issue came on September 12, 1972, when George Shultz, then Secretary of the Treasury, addressed the Opening Joint Session of the Annual Meeting of the Board of Governors of the International Monetary Fund, the International Bank for Reconstruction and Development, the International Finance Corporation, and the International Development Agency. At the meeting, Secretary Shultz put forward a U.S. proposal on international monetary re-

form in which a central point was greater flexibility of exchange rates.

This was a fundamental change from the principles established in the Bretton Woods Agreement of 1944. That agreement had set up the International Monetary Fund as the guarantor of a world monetary system based on fixity of exchange rates.

The issue arose as a consequence of serious and continuing balance of payments problems for the United States. Prior steps taken to improve the U.S. balance—notably, the currency realignments of the December 1971 Smithsonian Agreement—were breaking down. As the post-1971 surplus failed to emerge, a sense of frustration and urgency were imparted to development of a U.S. proposal. The currently popular view was that greater flexibility of exchange rates would provide a means for balancing U.S. payments.

The alternative to floating exchange rates, during this period, was to alter domestic monetary and fiscal policies. Indeed, under the Smithsonian Agreement and the practices of international finance among central banks in the post-World War II period, such an alternative was the only one available to the United States. Exchange rate changes could not be used by the U.S. to improve its balance of payments position—other countries, by pursuing compensating changes of their own currencies in face of any U.S. action to devalue, could frustrate the aim of American policy. The Europeans, in particular, made it clear that as long as the Bretton Woods rule prevailed, this would be their response to any further changes in the U.S. rate.

Such attitudes on the part of foreign central banks negated exchange rate variation as a U.S. policy instrument for pursuing external balance. The only alternatives were exchange controls and domestic demand management policies. Exchange controls were considered out of the question. (They had, in the past, been costly to administer, and had provided no substantial impact on the problem.) And there was little enthusiasm for turning the target growth rates of the money stock, for example, to the end of external balance.

The possible range of alternatives had been narrowed even further by the American experience of the early and late 1960s, when the U.S. attempted to postpone adjustment. The General Arrangements to Borrow (GAB), the Gold Pool, the institution of swap arrangements, Roosa bonds and, to a degree, SDR's were all means of financing the U.S. balance of payments deficit while postponing adjustment. A characteristic of the 1972 situation was that no foreign government was willing to continue financing the high rate of American imbalance.

In brief, the problem was how to satisfy the need for external balance. Foreign financing was no longer available, capital flow and exchange restric-

tions were inadequate, and domestic policy goals could not be sacrificed. Flexible rates were the only remaining alternative—it would have been difficult for any set of organizational arrangements to delay a large and fundamental step in the direction of flexibility.

B. The Process

More than a year had passed between unilateral suspension of the dollar's convertibility into gold and the announcement of a U.S. proposal on world monetary reform. On September 15, 1972, Treasury Secretary Shultz sketched out the American position. The details of the proposal are explained in his speech to the Annual Meeting of the Board of Governors of the IMF and the World Bank and in a paper circulated to the ministers of the IMF in November 1972. The seriousness of the proposal was underscored by President Nixon's statement to the ministers present at the IMF meetings—it was widely understood, prior to the meetings, that the President would not speak unless a matter of great substance were at issue and could be resolved.

In his speech, President Nixon stated the sources of American concern—that balance of payments adjustment take place and that adjustment be shared on an equitable basis. Secretary Shultz was more explicit on the exact form of the proposals. He designated six areas for special attention. They were: (i) *the exchange rate regime*—nations that wanted fixed par values should be accommodated as well as those who wanted greater flexibility or broader bands for fluctuations of currency values; (ii) *the reserve mechanism*—reserves would include SDR's but countries should not be discouraged from holding other currencies as a means of international settlement. Gold was ruled out because of the rigidities in such a system and the uncertainty attached to the supply of new gold; (iii) *the balance of payments adjustment process*—agreement should be reached on timing of changes in par values; those countries experiencing reserve accumulations or losses of reserves would be expected to take remedial action, either through change in the exchange rate or by some other means; (iv) *capital and other balance of payments controls*—no one should be allowed or forced to use such controls; (v) *related negotiations such as the GATT*—should not have to wait on the finalization of a new monetary order—the spirit of non-intervention and flexibility evidenced in the US monetary proposals should be carried into this area; (vi) *institutional implications*—the new monetary rules should be placed under the supervision of the IMF.

Prior consideration of international monetary re-

form in 1969–1971 was significant. Deliberations within the Volcker Group were aimed at generating a U.S. proposal for reform. (The Volcker Group was the second generation Deming Group—it met 130 times during its life from the beginning of 1969 to mid-1974.) As in the Deming Group, it involved high level representation from various agencies of the Executive branch. It included individuals who had an interest in international monetary matters and an ability to contribute to discussion of them. Participants included, for example, representatives from the State Department, the Federal Reserve System Board of Governors, the Council of Economic Advisers, the National Security Council, the Council for International Economic Policy, the Office of Management and the Budget, and the Council for Economic Policy. Its successor is the International Monetary Group—chaired by Undersecretary of the Treasury for Monetary Affairs, Jack Bennett. At the time the Volcker Group was meeting, Bennett chaired the Volcker Group Alternates—a group of interested government officials who handled the staff work of the Volcker Group itself. The Volcker Group deliberations occurred concurrently with a move spearheaded by Fred Bergsten, Kissinger's international economics expert in the National Security Council.

At the behest of Volcker, the group established a reform package that retained SDR's, convertibility of currencies, and first introduced the concept of reserve indicators which was part of the 1972 proposals. John Connally, Treasury Secretary at the time, had discussed the issue with Volcker, and was broadly in accord with Volcker's position, according to most observers. Observers question why their proposals were not instituted in 1971, in preference to the unilateral U.S. action of suspending convertibility and the subsequent realignment of par values. At the same time, a move was underway in the National Security Council. This was organized by Bergsten. He urged Kissinger and the Treasury to move the monetary system toward greater flexibility of exchange rates. For Bergsten, the critical stumbling block was an inability to convince Kissinger that action on reform should be taken.

One possible reason for loss of momentum in the Volcker Group proposals was the economic situation in Europe. European Monetary Union (EMU) and the Werner plan were preoccupying most overseas economic officials. Under these circumstances, there was no set of European priorities established for relations with the United States. While the U.S. government would ordinarily have pushed the Europeans to accept a package—their unity problems notwithstanding—the outlook for the U.S. payments balance curbed U.S. enthusiasm. It was likely that the balance was going to deteriorate and

that the Europeans would have to hold considerably more dollar assets than were currently outstanding. Pushing on a monetary reform package would have soured the Europeans on further accommodating the U.S. on the dollar overhang issue. Another possible reason is the absence of any strong voice proposing such reform within the White House.

A further view holds Secretary Connally's lack of interest in international economic policy as cause in delaying reform. Connally was supposed to have been interested in such issues only to the extent that they affected the U.S. domestic economy. The view is believable—particularly because of the decision to unilaterally close the gold window in August of 1971, impose an import tax surcharge, and subsequently, to devalue the dollar. At the time, the U.S. was experiencing a slowdown in economic activity. One body of economic theory argued that a devaluation and a tax surcharge would generate increased employment for the domestic economy. This would shift some of the unemployment burden to the rest of the world. The more difficult process of negotiating international reform would have involved substantial time convincing foreigners to accept a scheme that would have had no immediately measurable effects on U.S. output or employment. Resolution of the international reform issue had no domestic payoff; resolution of the payments problem of the U.S. through devaluation did. Connally chose the latter.

In describing the specifics of the 1972 decision-making process, it is useful to distinguish between two levels of decision-making activity. The first level consisted of high policy involving major figures in the administration. This level was responsible for the commitment to reform the international monetary system and for the approval of the specific program. The second level consisted of staff and technical economic policy decision-making. This level generated specific proposals. The entire process was characterized by definition of a direction and framework at the higher level and the working out of the proposals within those guidelines at the lower level.

During the period from June, 1972 to December, 1972, the Volcker Group was supplanted by a higher level group, also chaired by Volcker. It was established by Shultz for deliberations on this particular issue. Members included the Secretary of State, the Chairman of the Federal Reserve Board (Burns), the Chairman of the Council of Economic Advisers (Stein), the Chairman of CIEP (Flanigan), and the NSC (to the degree Kissinger wanted). Its support group, called the Small Volcker Group, included Robert Solomon (Federal Reserve Board—FRB), Ralph Bryant (FRB), Kenneth Dam (Office of Management and Budget—OMB), Richard Erb

(Council on International Economic Policy—CIEP), William Dale (IMF—Treasury), George Willis (Treasury), Sam Cross (Treasury), and Marina Von Neuman Whitman (Council of Economic Advisers—CEA). Early in his tenure as Treasury Secretary, George Shultz took the initiative in turning the attention of these groups to the issue of monetary reform.

The groups were already aware of the need for a U.S. proposal on reform. European bitterness at the U.S. role in the 1971 episode was evident, as was the need for some re-establishment of authority in the international monetary area after the U.S. assault on the Bretton Woods' framework.

While the need for a U.S. proposal was widespread, the need for flexibility was not. Burns, Ash, and Stein—with Burns the most vocal—assumed a different position from Shultz's on the need for greater flexibility.

In part, the issue was resolved by the President in June, 1972. Shultz, in a meeting with the President, argued the desirability of developing a U.S. position on monetary reform distinct from their obvious position of having no stance. The President agreed: 1) that such a proposal would be useful, 2) that greater flexibility should be actively considered as an alternative to the Bretton Woods' principle of fixity, and 3) that a proposal for reform should be prepared before the September IMF meetings. It was at this point that Secretary Shultz established the group mentioned above, along with the Small Volcker Group.

At the high policy level another issue was settled, although because of the decision's sensitive nature, the facts and timing of the settlement have been difficult to obtain. The substantial monetary disorder that characterized the early seventies was a direct challenge to the International Monetary Fund to restore order. The Fund had two alternatives in resolving the issue: Enforce restraint on the countries at the source of disturbance or take responsibility for considering reform of the system. The former alternative was discarded, as the United States was the source of problems. (U.S. monetary and fiscal policies had been too expansive in the period of burgeoning war, finance and domestic expenditure needs.) The United States was also unwilling to sacrifice domestic policy. Thus, the IMF chose to reconsider the fundamental principles of the international monetary system. As early as 1969, the IMF considered reform proposals that included greater exchange rate flexibility.

The U.S. response, however, was an attempt to generate an alternative to formal IMF responsibility for the review process. This was accomplished through the establishment of the C-20 at the 1972 annual meetings of the IMF. By the September meetings American authorities were convinced that

greater flexibility was necessary. This, however, would have eroded the foundation of the Fund as guarantor of the fixed rate Bretton Woods Agreement.

Rather than attempting to ensure that some partial salvaging of the fixed rate regime might be achieved, the U.S. had decided that some other international forum was necessary to review the functioning of the world system. As in 1963, when the U.S. was successful in establishing creation of a man-made reserve review committee through the G-10, so it was successful in 1972 in getting review of the monetary system into the hands of the C-20.

Discussion at the more junior group meetings began, with the departure of John Connally, at the request of Shultz, after his instruction from the President to proceed in putting forward a monetary reform package. There were fifteen meetings of the two Shultz-created groups in the second quarter of 1972—they were concentrated in June and mark a distinct shift from the level of activity of the latter part of the Connally era.

The basic framework was set by Shultz's directive to consider means of achieving greater flexibility of rates. The specific objective indicators proposals had been discussed in earlier Volcker Group sessions. The procedure in this period centered around the production of Secretary Shultz's speech—to be prepared for the September, 1972, Annual Meeting of the Governors of the IMF. This meeting also determined the timing of deliberations—the speech and the proposals were to be ready by September.

The contribution to the group's deliberations by each of the participants was noteworthy—the agencies included Treasury, the Federal Reserve Board, the Office of Management and Budget, the Council for International Economic Policy, and the CEA.

The State Department, apart from peripheral involvement of Secretary Rogers at the senior level, was notably absent from the deliberations. The probable reason is that no one at the State Department (or the National Security Council) had both the interest and technical ability to contribute to debate on international monetary reform. Credence is lent to this explanation because the individual who would ordinarily have filled this role—Nathaniel Samuels, former Assistant Secretary of State for Monetary Affairs—had recently resigned his position. Secretary Rogers chose to delay appointing a new Assistant Secretary for Monetary Affairs or an Undersecretary until after the presidential election.

The most probable explanation of State's virtual absence from the deliberations is lack of interest on the part of senior officials in the foreign policy (as distinct from economic policy) establishment. This

included Kissinger who, on various occasions, expressed his lack of interest in international monetary policy and his feeling that such issues were unimportant in the world of diplomacy. The only time Kissinger became involved in this area was after the unilateral suspension of gold convertibility, at the President's behest. The strength of the European reaction to this move made it obvious that international monetary matters—when in such a state of chaos—were those of high politics to the Europeans.

III. THE IMPACT OF ORGANIZATIONAL ARRANGEMENTS

The purpose of this section is to determine how possible organizational changes would have affected the decision in 1965 to support creation of a man-made reserve asset and the decision in 1972 to put forward a proposal on U.S. monetary reform.

One feasible form of organizational alternatives to present arrangements involves increasing the State Department's role in foreign economic decision-making. This would involve adding more economics staff and might require substantial internal reorganization of the State Department. The purpose would be to increase the time spent by the State Department in considering economic issues.

The organization of the State Department along the lines proposed was effectively begun in 1957 with the appointment of Douglas Dillon as Deputy Undersecretary of State for Economic Affairs. Dillon subsequently became Undersecretary of State for Economic Affairs and then, the senior Undersecretary of State—retaining control over the State Department's concern with international economic policy decision-making, however.

Congress, with the approval of the President, passed a law in 1958 creating the office of Undersecretary of State for Economic Affairs. As a result, Dillon became responsible for AID and a large part of foreign trade policy, according to Dillon's testimony before the Committee on Foreign Affairs and its Subcommittee on Foreign Economic Policy on July 25, 1972. This experiment ended in the initial stages of the Kennedy Administration with his appointment as Undersecretary of State for Economic Affairs, his subsequent appointment as Senior Undersecretary, and the appointment of Robert Murphy as Undersecretary for Political Affairs.

The 1958 law, initiated by Dulles' request to the President, established the Undersecretary at a level sufficiently high to enable him to communicate authoritatively with other senior officials of the government.

A second feasible form of organizational arrange-

ment would re-establish closer White House involvement in the process of considering alternative policies. Both the decisions of 1965 and of 1972, it should be noted, were organized along the lines of close White House control. Characteristic of this organizational form was involvement of one individual who was responsible to the President, carrying the burden of his authority on each of the issues. This person was Shultz in 1972 and Bator in 1965.

There are two advantages to this mode. It brings together those at senior levels in government who have the interest and the technical expertise to handle international monetary considerations. The group is then guided by an individual carrying the authority of the President.

A. The 1965 Decision to Support Creation of a Man-Made Reserve Asset

1. THE EFFECT OF INTRODUCING ALTERNATIVE STRUCTURES OF ORGANIZATIONAL MODES

(a) Decision Point One—The Johnson Message to Congress

The speech committed the U.S. to some form of reserve asset creation. The timing and commitment itself could have been sensitive to organizational change. To a large degree, however, external events dictated the need for government action.

First, the French were threatening to demand the conversion of dollar balances into gold. This would reduce the American gold stock below the legally required minimum cover on the outstanding Treasury issue. Second, the U.S. balance of payments was expected to come into equilibrium at some time in the near future—at that time it would be necessary to create some substitute form for providing additions to the stock of international reserves.

The 1965 Presidential decision to negotiate reserve asset creation was contingent on the close White House control organizational mode. Had Francis Bator not been involved in the process, in his capacity as the President's adviser on such matters, the original Treasury view would have prevailed. This view was, of course, that a reserve asset proposal scheme could wait. The existence of this organizational mode during the Kennedy Administration was, however, not enough to have given the reform proposal enough acceptability. This was probably due to the strength of the Treasury position and the success of Treasury initiatives—through the GAB, for example—in supporting the international monetary system.

Had a stronger, more economics-minded State Department existed in the period 1962–1964, the

reserve asset proposal might have gained earlier Presidential approval. The State Department's economic expertise would have had to outweigh the strength of the Treasury position for this to have occurred.

(b) Decision Point Two—Forming the Deming and Dillon Groups

This decision was, again, contingent on Bator's efforts through the White House mode. The proximate source of concern in creating the Deming Group was the inadequacy of LRIPC discussions and the virtually complete dominance of Treasury views on the issue of monetary reform. Had the State Department been altered to effectively address economic issues, the functions of the Deming and Dillon Committees might have been largely accomplished by 1965.

(c) Decision Point Three—Fowler's Speech

Fowler's speech was made with the knowledge that an adequate U.S. policy discussion group—the Deming Group—existed, that the President favored reserve asset creation, and that international deliberations were well underway.

The White House organizational mode produced Presidential approval and the adequate U.S. governmental framework by 1965. The White House mode had not produced these in the Kennedy period. Whether the State Department mode would have done so, would have been contingent on the need for reform, on adequate economic organization within the State Department, and on gaining Presidential approval. The second element—more effective organization of economic expertise—would be the point of State Department reorganization. However, Presidential approval for action in the area would, in all likelihood, have required a clear and present need, which probably did not exist prior to 1965.

(d) Decision Point Four—The Ball-Fowler Trip to Europe

This trip would probably have been made, regardless of organizational arrangements.

2. THE ADEQUACY OF AVAILABLE INFORMATION

Excellent technical information was available in abundance. The work of the Ossola Group—combining the talents of most finance ministries including the Treasury of the United States, U.S. Federal Reserve Board, and the opinions of leading academic economists—produced the best technical information available, given the state of the economic art.

General economic information was lacking but

little could be done by government to remedy this. Specifically, the longer term interests of the United States proved to be flexible exchange rates. There was, however, no widespread experience with floating on which to base a decision. Whether the appropriate policy response was to reject flexible rates is not an organizational issue.

B. The 1972 Announcement of Post-SDR Objective

1. THE EFFECT OF INTRODUCING ALTERNATIVE STRUCTURES ON ORGANIZATIONAL MODES

(a) Secretary Shultz's decision with President Nixon to develop a monetary reform proposal involving greater flexibility.

This decision point would not have been affected by organizational change. By far the major factor in determining the timing and intent of this decision was the legacy of the John Connally period. The exchange rate changes of 1971 had not produced balance and other central banks were not willing to accumulate large additional U.S. dollar liabilities. Flexibility was the only remaining alternative. An American proposal on monetary reform was absolutely essential. The U.S. had hurt international goodwill and mutual trust by unilaterally closing the gold window and imposing an import tax surcharge in 1971. Little alternative remained but to offer a conciliatory U.S. proposal on monetary reform—aimed at re-establishing some semblance of order in the world financial system.

(b) Creation of the Special Shultz Advisory Group

This decision point would not have been influenced by a change of organization. Political information of the kind provided by a State Department with an enlarged economic analysis capacity could not have provided anything which was not already available. The Europeans were adamant about expecting a U.S. initiative. It was also known that greater flexibility of currencies was then accepted by the Europeans as an alternative to the current arrangements. No additional political information could have delimited the possible bounds of American action.

(c) Secretary Shultz's Speech to the IMF Governors

This presented the U.S. proposal and would not have been affected by organizational change. For the reasons outlined above, the speech presented

the only alternative available to the U.S. government at the time.

2. THE ADEQUACY OF AVAILABLE INFORMATION

Political information was completely available. In particular, the position of the Europeans was known. It had been conveyed as early as 1971, prior to the Smithsonian conference, by Secretary Kissinger. It was known that the Europeans would accept an interim accord—such as the Smithsonian Agreement—but would expect a definitive U.S. proposal on monetary reform.

Economic information was plentiful. The major points were that devaluation in 1971 had not worked, that further financing of the U.S. deficit through accumulations on foreign central banks of U.S. liabilities was impossible, that exchange controls were ineffective, and that greater flexibility was the only untried alternative.

IV. GENERAL CONCLUSIONS

In the process of international monetary policy decision-making, a high level, informal group has inevitably emerged to discuss the issues at hand. The group traditionally makes recommendations on policy, the implementation of these policies, and related follow-up procedures. This inevitability suggests the group mode is the most effective forum for handling international monetary matters at a high policy level, regardless of whether it is the strengthened State Department or White House control mode that is operating.

Although emergence of such a policy group is inevitable, the group does not always function well—this is particularly true when the immediate decision is past and when high-ranking officials choose to ignore information from their technical experts.

Over the past twelve years, there have been four such groups. The first was the Long Range International Payments Committee. This committee fell into disuse by March, 1966. The second, the Deming Group, was formed nine months after. The Deming Group metamorphosed easily into the Volcker Group when Volcker replaced Deming as Undersecretary of the Treasury for Monetary Affairs, as did the Volcker Group in becoming the International Monetary Group.

As was pointed out in the body of the paper, the LRIPC was simply a sounding board for Roosa's ideas and a technical group that could answer his specific questions on monetary issues. The LRIPC had no apparent impact on the direction of policy. When the need for an American negotiating posi-

tion on man-made reserve assets arose, the LRIPC could not respond.

The Deming Group was formed to meet this need. A gross measure of the Group's effectiveness is the increase in the frequency of meetings that occurred in 1965. The flexibility and effectiveness of the organizational mode was also demonstrated from 1964-1967—at the time of the sterling exchange crises. (The Deming Group was also established to examine the international monetary problems relating to the position of the pound sterling in world markets.) Again, the frequency of meetings increased dramatically.

The 1971-72 chronology also provides some gross evidence for the inevitability of this organizational mode. By the end of 1971, the Volcker Group had ceased functioning as an effective advisory body. This is probably because Connally had decided that suspension of gold convertibility, the imposition of the import tax surcharge, and the Smithsonian realignment of rates was action enough on

international monetary matters. By June, 1972, it was evident that this was not the case and critical work had to be done in examining U.S. alternatives. This led Shultz to establish—under Volcker's chairmanship—another ad hoc group with staff support from the Small Volcker Group. Again, the frequency of meetings picked up in the latter half of 1972, indicating that the group was effectively dealing with the issues at hand.

In summary, the ad hoc interagency group mode seems to have well served the interests of U.S. foreign economic policy decision-making in the 1965 and 1972 episodes. When the group mode failed, it did so because senior officials chose to let it fail. The interagency process of deliberations at senior levels should continue, regardless of whether the White House mode or the strengthened State Department mode is instituted. A major piece of evidence that the group mode is useful is that in both the 1965 and 1972 decisions, problems were effectively resolved within that framework.

The Dollar Devaluations of 1971 and 1973

Elizabeth Stabler
November 1974

INTRODUCTION

This case study describes and assesses the processes by which the U.S. Government decided to seek and negotiate two currency realignments, including formal devaluations of the dollar, in 1971 and 1973.

The 1971 process is treated as a series of decisions stretching from the weeks preceding the August 15 announcement of the New Economic Policy through the December 17-18 Group of Ten meetings at the Smithsonian, when international agreement was reached on a general realignment of exchange rates, including an increase in the dollar price of gold.

In 1973, the period covered is from January through March, during which a further devaluation of the dollar was negotiated; then when turbulence in the exchange markets persisted, the U.S. concurred in a system of managed floating rates.

The 1971 and 1973 processes are then compared and assessed for the adequacy of U.S. organizational arrangements for making exchange rate and related monetary decisions, and for pursuing the international negotiations or consultations these decisions necessarily entail.

Decisions in both periods have been reconstructed to the extent possible from public sources, documents made available on a background basis by the U.S. Department of the Treasury, and interviews.

We believe that we have described accurately the broad outlines of the decision process in both years in sufficient detail to draw some conclusions about organization. Nevertheless, gaps remain on dates of decision, participants, and alternatives considered.

Decisions which can lead to huge movements of funds in exchange markets are tightly held. As decisions approach, less and less is reduced to paper, and important meetings may not even be put on calendars.

Further, finance ministers and central bankers, while they may argue fiercely among themselves and do their share of leaking to the press, do not happily brook challenge to their right to decide such matters as currency realignment among themselves, and are reluctant to open the decision process and negotiating positions to public scrutiny.

Thus, quite aside from considerations of personality, agency rivalry, and access to the President—all of which render the 1971 decisions particularly sensitive—there is an element of international “clubbiness” which reinforces reticence on monetary decisions.

I. THE 1971 DECISIONS

A. Overview

On August 15, 1971, President Nixon announced that the U.S. gold window was officially closed and that for the time being the U.S. would not intervene to support existing dollar exchange rates.

The U.S. Government would seek greater burden-sharing in the defense of the free world and a realignment of “unfair” exchange rates that placed U.S. goods at a competitive disadvantage. No formal devaluation of the dollar was contemplated.

In the short term, these and other international and domestic measures decided at Camp David were intended to halt a sharp deterioration in the U.S. payments position. Our trade account, after seven years of decline, had gone into deficit. Our reserves had shrunk to less than a third of our liabilities to official holders alone. These trends were being accompanied by large outflows of short-term capital, recurrent waves of speculation against the dollar, and demands by foreign governments for gold.

In the longer term, the August 15 measures were intended to accelerate international processes to overhaul the 1944 Bretton Woods system of fixed exchange rates, and to undertake trade negotiations on non-tariff barriers and numerous other U.S. grievances such as the common agricultural policy of the European Common Market.

President Nixon's announcements were followed by a four-month period of difficult, and often rancorous, negotiations which put the post-World War II arrangements for international monetary cooperation to their severest test yet.

Other countries had acted unilaterally to adjust their payments position, and the Canadians, Germans, and Dutch had earlier floated their currencies. But it was unthinkable that the U.S. should do the same: adopting measures which in effect were an attempt to float the world's leading reserve currency, adding a 10% import surcharge, and accompanying these with a peremptory demand for a general realignment along with trade and other concessions.

Similarly, within the U.S. government, there were few, if any, precedents in the policy-making process for the monetary decisions of the summer of 1971 (the 1933 dollar devaluation was rather far away) and for the numerous negotiating decisions that would have to follow.

There had been other exchange market crises. There had been many decisions over a more than 10-year period on measures to reduce and manage the U.S. payments deficit. And there had been difficult international negotiations, for example, on SDRs and the two-tier gold system.

But the kind of bureaucratic process that could best prepare for and deal with the monetary world that dawned on August 16 was an unknown and not at the top of the agenda at Camp David or subsequent decision points.

Clearly, there were choices at the time as to who should participate in the process and when. The choices were *ad hoc*, however, and turned as much on personality, the reputation of agencies, and preferences for secrecy and surprise, going perhaps beyond what was required, as on the substance of the pending decisions.

1. ISSUES

International and domestic issues were inextricably linked in the monetary decisions of 1971.

Neither our competitive position abroad nor foreign confidence in the dollar was being aided by a sluggish domestic economy in which unemployment persisted at an unacceptably high rate while a new inflationary round of increases in prices and wages appeared to be underway.

There was broad concern also over a new protec-

tionist drive in the Congress, which appeared to be making headway, while the U.S. was at the same time pressing Japan, Canada, and the EEC to lift restrictions on U.S. capital exports and goods.

Generally, the credibility of U.S. domestic economic policy both at home and abroad was perceived as at stake, and more generally still, U.S. prestige.

There was a feeling on the part of the President and his top advisors that our traditional friends neither understood nor appreciated the burdens the U.S. was carrying in Vietnam and elsewhere on behalf of the free world. The dollar was being kicked around in foreign markets, our gold stock was declining, and foreign bankers and finance ministers insisted that the U.S. payments deficit was at fault.

And as these foreign bankers and officials had for years, they were suggesting the remedy of a restrictive monetary policy, which U.S. Administrations had consistently rejected as unacceptable in terms of goals of domestic full-employment and growth.

Thus, domestic and international *political* considerations weighed as heavily, and perhaps more heavily, in deciding the international measures announced on August 15, as the need to do something about the latest foreign exchange crisis and the U.S. payments position.

That crisis could probably have been ridden out like the others. But it provided a setting and a rationale for a decisive turn-about on the domestic economy. The dramatic nature of the monetary measures complemented the domestic parts of the new economic policy.

The monetary measures raised a host of issues: How much was the dollar overvalued? What were the implications, both domestic and international, of changing the dollar price of gold? Should agreement on wider margins be sought? What negotiating stance should be taken to get a satisfactory realignment, and was a return to fixed rates really desirable? In what forums should negotiations take place? How many related trade and defense issues should be placed on the table? Were basic monetary reform discussions a realistic possibility in conditions of market uncertainty?

Some of these issues had been under discussion for months, but for the most part, they were not the focus of discussions at Camp David and remained to be resolved in the following months.

What also was missing in the decision period of the summer of 1971 was where the monetary measures fit into the broader international scheme. Their historic nature and the political punch they carried were certainly recognized. Secretary of the Treasury John Connally called in all available Treasury aides to witness his signing on August 15 of the letter notifying the IMF of the decisions.

They were certainly also part of a conscious "get tough" policy with Japan, Canada, and our European allies on outstanding trade and defense burden-sharing issues. But how they meshed with the SALT talks and European views of these talks, Vietnam negotiations, the upcoming summit meetings in Peking (announced in July) and Moscow (announced in October), and U.S. interest in an "outward-looking" EEC, which was about to be joined by Britain, Ireland, and Denmark, was not really on the discussion agenda.

It is doubtful that the introduction of broad foreign policy considerations would have changed the content of the August 15 decisions or the negotiating strategy pursued in the weeks following.

These considerations were injected late in the fall and probably speeded the process of settlement and narrowed the contents of the package being sought by the Treasury. The extent to which Treasury officials, and particularly Secretary Connally, felt under-cut is a matter of dispute.

The main point is that there was no forum, throughout the period, in which the President's top-level economic and foreign policy advisors were meeting to hash-out overall objectives and strategy, and to forewarn and forearm themselves, along with the President, for choices that could not be separated into foreign economic and foreign political.

2. THE DECISION ARENA AND INTERESTED PARTIES

Participants in the U.S. monetary decisions of 1971 were few, the array of interested parties large, including numerous U.S. agencies, several Congressional committees, and international institutions and foreign governments.

The atmosphere surrounding the decisions was highly charged before August 15 and became more so during the fall. This was in part because the decisions themselves, both domestic and international, involved major changes in policy.

It was also due to the secrecy involved, and the fact that so many of the interested parties felt left out of a decision process affecting their vital interests or reflecting on the status of their bureaucracies.

Particularly prior to August 15, there was intense speculation in the media on the standing of the President's various economic advisors. Following August 15, the negotiating style of the Secretary of the Treasury became an issue in itself. As negotiations dragged on in the latter months of 1971, the dire consequences of delaying a settlement that would end uncertainty in exchange markets and ward off retaliatory measures by other countries were increasingly the focus of media attention.

a. The Domestic Arena

Key features of the 1971 decision arena were 1) the emergence of a *primus inter pares* among the President's economic advisors; 2) the abstention until relatively late in the game of the President's chief foreign policy advisor from the foreign economic policy decisions; 3) the endeavors of a new White House based agency—CIEP (Council on International Economic Policy)—to find a role in the face of opposition from Departments such as Treasury and State; and 4) the fact that despite numerous coordinating bodies and White House Councils, it was only the President who could put foreign and domestic economic policy and national security policy together.

It was symptomatic of the scene that an organization chart would only partially explain the monetary decision process—chiefly the roles of Treasury and Federal Reserve—and that personality, personal predilections, and standing with the President and White House staff counted for as much as agency hats.

Some of the principal actors, agencies and groups as well as some of those on the periphery are profiled below.

The White House

The President. He reportedly thought that financial experts much exaggerated the importance of exchange market crises and that their chief mission should be to get rid of the crises. He was thoroughly conscious that his economic advisors winced when he spoke of the machinations of "international speculators."

He was constantly in search of ways to tie domestic and international economic policy together, both organizationally and substantively. He preferred to make decisions after talking with only one or a few top advisors, and did not want hot inter-agency disputes on policy alternatives argued out in the Oval Office.

It was the summer of the Pentagon Papers and embarrassing leaks on the SALT talks. Secrecy was probably more of a concern to the White House even than to Treasury.

NSC and Kissinger. With Kissinger's approval, after the departure in May of assistant for international economic affairs Fred Bergsten, the senior coordinating role in foreign economic policy shifted to CIEP. Although Kissinger was briefed regularly by more junior staff, his disinclination to get involved in foreign economic policy questions until they impinged forcefully on politico-military interests was well known. In the summer and fall of 1971, he was deeply involved in secret Vietnam negotiations, SALT talks, and arrangements for the upcoming alliance and Moscow and Peking summits.

CIEP and Peter Peterson. The history of CIEP cannot be detailed here. Suffice it to say that Executive Director Peterson was regarded as ambitious and forceful, that he liked to consult outside experts, that he succeeded in getting deeply involved in trade policy, but failed to get a handle on monetary policy. CIEP met at the most twice at the Cabinet level during the 1971 period. Peterson's pronouncements on monetary affairs made Treasury officials extremely uneasy. And a mid-July meeting of senior CIEP agency representatives at Camp David, called by Peterson to discuss a draft report on the global economic scene, made them particularly nervous.

The Treasury and Secretary John Connally. The Treasury had long had the lead in international monetary affairs, a responsibility it jealously guarded. But the role played by Secretary John Connally in 1971 went considerably beyond tradition. He was designated "economic spokesman" for the Administration in late June. With a clear mandate from the President, he dominated the decision process both on the domestic and international economic fronts for the next several months. And but for the December meeting at the Azores between Presidents Nixon and Pompidou, Connally dominated the negotiating process throughout the August to December period.

Connally chaired the regular meetings of the *Troika* (George Shultz, Paul McCracken, Connally) and *Quadriad* (plus Arthur Burns), but under his leadership, these meetings were more fully staffed out than previously and thus became unlikely forums for discussing sensitive pending monetary decisions.

Unlike most Secretaries, Connally did not come from the established financial community. For some observers this explained his inability to get along with some of his foreign counterparts, and his abrasive negotiating tactics. On the other hand, someone with the more traditional background for the post might have had more difficulty in recommending the dramatic August 1971 measures, and in getting the degree of realignment achieved at the Smithsonian. Alternative outcomes must remain speculative. The point is that many in the Treasury welcomed a strong leader and that he was the man the President wanted to do the job.

Under Secretary for Monetary Affairs Paul Volcker. He had had a couple of previous stints in Treasury. Assisted by a small group of Treasury aides, he was Connally's top advisor throughout the period, and participated in all the fall negotiations. But it is not certain that even he was privy to all the recommendations being made to the President by Connally, or to what negotiating move Connally might next make.

The "Volcker Group". Volcker chaired the only interagency group exclusively concerned with inter-

national monetary problems. It could be characterized as falling somewhere between formal and *ad hoc*. It appears to have evolved from a group with a fairly direct policy input in its early years to more of a seminar in the last years of the Johnson Administration and under the first Nixon Administration.

Formed in 1965 largely at the urging of Deputy Special Assistant for National Security Affairs Francis Bator, the group consisted, in addition to Volcker's predecessor Fred Deming, of top officials from NSC, CEA, State and the Federal Reserve. Its existence was intended to be secret. Its purpose was to discuss and develop recommendations for the President on a wide range of pending monetary issues, and to ensure that Treasury did not have exclusive management of problems that had large foreign policy implications. There were no formal agenda or minutes.

Treasury staff in particular felt left out and there was a gradual increase in the number attending meetings.

By 1969, the group had a history and probably would have been continued by Volcker. But again the initiative came from the White House by means of a National Security Council Study Memorandum (NSSM), inspired by NSC Assistant C. Fred Bergsten. From the Treasury viewpoint, the NSSM was objectionable in that it proposed that with Volcker in the chair, the group report to the NSC, thus bypassing the Secretary of the Treasury.

The NSSM was withdrawn in June of 1969 upon the assurance of then Secretary David Kennedy that substantially what had been proposed in terms of the group's purview and membership would take place. In fact, the group did not act as a reporting group but as a discussion group in which agency as well as individual viewpoints were exchanged on topics usually proposed by the Chairman. Participants in turn would brief the heads of their agencies or departments.

In 1971, participants usually included one or two aides to Volcker, plus U.S. Executive Director to the IMF, William Dale, and from State, Deputy Under Secretary for Economic Affairs Nat Samuels usually accompanied by Deputy Assistant Secretary for International Finance and Development Sidney Weintraub from the Federal Reserve, Governor Dewey Daane usually accompanied by Director of the Division of International Finance Robert Solomon, and from the CEA, Henry Houthakker usually accompanied by international specialist Marina Whitman. After the departure of Fred Bergsten from the NSC in May 1971, there was no one of sufficiently high level on the NSC staff to attend the group's meetings. While Executive Director of CIEP Peter Peterson might have been expected to succeed to the NSC slot, he was not invited to do so, and was either unwilling or unable to

press the matter with Connally or the President.

While small as interagency groups went, with a good record for secrecy, and still lacking the formal agenda and minutes that would have given a wider number of persons access to its proceedings, it was still considered by Treasury as too large to serve as a forum for discussing contingency planning or alerting other agencies to the pending 1971 decisions.

Federal Reserve, OMB and CEA. After Treasury, the Federal Reserve had the largest claim on international monetary affairs. It managed the central bank swap network, and its Chairman, along with the Secretary of the Treasury represented the U.S. in the Group of Ten.

It was well known that the Fed and the Treasury did not always see eye to eye on international monetary issues, with the Fed probably more disposed than Treasury to preserving smooth working relationships among central banks and to keeping the Bretton Woods system alive. Indeed, the Volcker Group has been described as a forum in which bilateral negotiations took place between the two agencies.

One ad hoc Fed-Treasury tradition is worth noting. Usually, a small group of top Treasury and Fed staff along with two or three Governors of the Board meet for Wednesday lunches at the Reserve. But this has been a forum in which general issues, not sensitive pending decisions have been discussed.

The Council of Economic Advisers has traditionally had one member primarily concerned with foreign economic policy. In the summer of 1971 this was Houthakker, shortly to be succeeded by Ezra Solomon, who declared at his confirmation hearings that the dollar was probably overvalued and that he was not opposed to a system of floating rates. A Council spokesman clarified that this was not the official policy of the CEA, although Chairman McCracken was probably in general agreement.

OMB obviously had an interest in the budgetary implications of trade policy and any change in the dollar's value. However, OMB was not represented on the Volcker group at the time, and in the past had been on the periphery of international monetary decisions.

What should be emphasized about all three agencies in 1971 is not their institutional interest in the monetary decisions, but first, the standing of their heads with the President and his staff, and second, the fact that during the fall, implementation of Phases One and Two of the domestic economic measures announced on August 15 preoccupied the attention of CEA and probably to a large extent, OMB.

Federal Reserve Chairman Arthur Burns was a long-standing economic advisor of the President. But he did not ingratiate himself with the White

House in the spring and summer of 1971 with his publicly expressed views that the domestic economy was not in good health, and that in order to bolster the dollar abroad and restore price stability at home, a wage-price review board along with an incomes policy were needed. This dissent from official policy led to the infamous White House leaks to the effect that an enlargement of the Board of Governors was under consideration and the Chairman was seeking a salary raise.

The incidents are worth mention only because they may have diminished the role Burns played in the preliminary discussions in the Oval Office of the monetary decisions announced on August 15. But they were not sufficiently damaging to prevent his emergence later in the year as a key figure in hastening the process of international settlement.

CEA Chairman McCracken, although not publicly, was taking a position similar to that of Burns on the domestic economy. While Connally's star was clearly on the rise, McCracken met at least a couple of times with the President in the weeks preceding August 15, and may have played some role in the international monetary decisions by reportedly suggesting that what was needed was some kind of dramatic action on the order of the Peking Summit announcement.

OMB Director George Shultz had become a close and trusted advisor of the President. Despite a turnaround on domestic economic policy with which he disagreed, he maintained this status throughout 1971. And his involvement in the international monetary decision process, although sporadic, appears to have stemmed more from this status than from the agency hat he wore. Thus his strong views on aiming for a flexible exchange rate system and not giving in on convertibility got a hearing that they might not otherwise have had.

The Department of State

There is no need here to go into the Department's eclipse while Kissinger was based at the White House. What is important is that 1) the Secretary had access to the President and participated in at least some decision-making in the Oval Office; and 2) he was unwilling to insist that either he or a deputy be included in the monetary decision process just before or at Camp David, despite the fact that the decisions would affect relations with every non-Communist country in the world.

He was alerted to the pending monetary and trade issues by his Deputy Under Secretary for Economic Affairs Nat Samuels and by Deputy Assistant Secretary Sidney Weintraub. It was probably Rogers (perhaps Burns) who saw that Samuels was included in the delegations to the London and Rome Group of Ten meetings. (Traditionally, these meetings involved only finance ministers and central bankers, and Samuels certainly wasn't invited by Connally.) And Rogers went to the Azores.

But throughout the 1971 period State stood on the periphery of the monetary events and negotiations.

There were several problems. One was rank. Samuels as a Deputy Under Secretary ranked below Volcker and probably below a Governor of the Federal Reserve. But this should not be exaggerated. Another was the fact that Samuels was known to oppose closing the gold window and a system of more flexible rates. And dissent, at least from State, was not the order of the day at Camp David. Ironically, Samuels favored a far larger import surcharge than that adopted.

More generally, there was the long-standing problem that State was perceived by other agencies as overly solicitous of its foreign constituency, raising objections every time a tough measure was proposed that a base agreement or a special relationship might be endangered. And then there was also the problem that State was perceived as a "leaky" agency to which the sensitive monetary decisions of the summer and fall could not be entrusted.

The Department of Commerce

Commerce also stood on the periphery. And to a large extent, quite aside from the fact that Treasury was grasping for the lead in trade areas, the problems were similar to those of State. Top Commerce officials simply were not regarded as peers by the Treasury.

The Congress

The two banking committees in the House and Senate, and the Senate Foreign Relations Committee, in so far as U.S. participation in international institutions was involved, would have to pass on any change in the par value of the dollar. But more important during this period was the role played by the Joint Economic Committee Subcommittee on International Exchange and Payments, chaired by Rep. Henry Reuss (D-Wis.) and whose ranking minority member was Senator Jacob Javits (R-New York), and to a lesser extent by Rep. Wilbur Mills, Chairman of House Ways and Means.

The Ways and Means Committee was at the center of trade and domestic legislation required by the new economic policy, subjects which are beyond the purview of this paper. But in various speeches during the 1971 period, Chairman Mills addressed himself to general balance of payments problems, suggesting notably in a late July speech that a system of border taxes to discourage imports and encourage exports be adopted to improve the U.S. payments position. The speech was part of a building climate to take action.

The Reuss Subcommittee was regarded by Treasury and a fairly large audience in the domestic and international communities of economists and financiers as the most expert Congressional forum

on international monetary affairs, and one which over the years had taken positions (e.g., on SDRs and the two-tier gold system) that became subsequent U.S. policy.

In June 1971, the Subcommittee held hearings in which Treasury and Reserve officials and outside experts were asked to comment on measures to deal with the deteriorating payments position. These included a resolution introduced by Reuss proposing that the gold window be closed and the dollar be allowed to float if the IMF failed to act promptly on a realignment of currencies and other reforms. The hearings attracted considerable attention.

On Friday, August 6, the Subcommittee issued a report including recommendations endorsed by the Democratic majority and Senator Javits substantially along the lines of the Reuss resolution. The report fired the volatile exchange markets in the following week.

Congress was recessing that weekend until after Labor Day, and the Chairman's intent was to get something out before the recess, as well as to prod the Treasury into action before the September IMF meetings. Setting off an exchange market crisis was not part of the calculation.

The Treasury denied both in June and on that August weekend that measures being suggested by Reuss were necessary, under active consideration, or commanded any widespread support.

And when Reuss and Javits in mid-November introduced a joint resolution authorizing an increase in the dollar price of gold of up to 10%, the Treasury also denied that it supported such legislation.

In the event, the issuance of the Subcommittee's report in August appears to have influenced more the timing than the content of the international monetary decisions announced on August 15. There is a small possibility that without the crisis of the preceding week, those decisions might have been postponed even beyond Labor Day. But this is to speculate.

What should be underlined here is that a strong plea from Treasury to hold back the report would probably not have swayed the Chairman and Subcommittee majority, who thought that a change in policy was overdue.

The Williams Commission

Appointed by President Nixon in 1970, the work of the Commission on International Trade and Investment Policy, chaired by Albert L. Williams of IBM, also helped shape the environment in which the monetary decisions were made. Its findings were early made available to CIEP Director Peterson, reported confidentially to the President in July, and made public in September. The basic thrust of the findings was the need for efforts to eliminate all barriers to trade and capital movements within the

next 25 years, and for short-term unilateral measures by the U.S. possibly including import quotas and border taxes to force change and reverse the growing trade deficit.

Public Opinion

It is salient to the monetary decisions in that pressure was building for action on the domestic economy and imports.

How the public might react to a *de facto* or formal devaluation of the dollar was an unknown, but of concern to the Administration. This unknown reinforced the strong inclination of President Nixon and Secretary Connally to set the monetary decisions in the domestic context of more jobs for Americans and a vigorous stand against foreign speculators.

b. The International Scene

The U.S. pursued the trade and monetary objectives announced on August 15 in a complex and tense international environment. Both bilateral and multilateral negotiations were involved. Politico-military objectives—including a new offset agreement with West Germany and more defense burden-sharing in NATO—had to be coordinated with foreign economic objectives.

Difficult textile negotiations with Japan were already underway. For Japan and the other chief trading partners of the U.S. the domestic stakes in any realignment were enormous. Merchandise trade formed roughly only 4% of U.S. GNP. It loomed far larger in foreign GNPs.

For the IMF, the GATT, the OECD, and the BIS (Bank for International Settlements), the stakes were also large. Without making a bow to the appearance of consultation, the U.S. was unilaterally flouting the rules and forcing change. These institutions all had bureaucracies who had an interest in seeing that their remedies for trade and monetary ills were listened to by member countries. Further, they represented many countries who were not members of the Group of Ten, the chief forum within which negotiations were to take place.

The Commission of the EEC also had an interest. The Community was about to be enlarged. The coordination of monetary policies was an aim. For the U.S., obviously, a common stand in opposition to U.S. objectives would make negotiations more difficult, thus bringing into play the longstanding U.S. policy dilemma of professed support for European unity but not at the expense of U.S. interests.

Throughout the fall, these organizations were coming up with findings on trade imbalances, the "inappropriateness" of the import surcharge, and the need for a U.S. contribution to any currency realignment that ran counter to U.S. positions. U.S. officials were particularly outraged by the leak in

mid-autumn of IMF staff estimates of needed degrees of currency realignment which fell considerably short of adjustments sought by the U.S., and by the outspoken position of IMF Managing Director Pierre-Paul Schweitzer that a settlement would require a U.S. contribution in terms of dollar devaluation.

In sum, the 1971 decisions required management of a range of simultaneous bilateral and multilateral negotiations. They also involved management of day-to-day relations with international institutions which the U.S. had helped create, which would have an impact on the negotiating climate and the contents of a settlement, and within which the U.S. would have to pursue its long-term objectives following a settlement.

B. The Decision Process

The 1971 process can be divided into four phases: a preliminary phase of debate and contingency planning whose beginning must be set somewhat arbitrarily several months prior to August 15; a decision phase beginning a few weeks prior to Camp David and lasting through mid-weekend at Camp David; a subsequent phase of initial negotiations and apparent stalemate lasting at least to mid-November; and a final settlement phase lasting from preparations for the end-of-November Rome Group of Ten meetings through the Smithsonian.

Throughout the period, the monetary decisions were basically made by the President and Secretary Connally, with intermittent participation by Burns, Shultz, McCracken, Kissinger and Peterson. At this level, this can scarcely be called a process in that there was no consistent pattern of these advisors regularly meeting together or with the President as the monetary scene evolved.

At other levels, there were several processes underway. They were for the most part compartmentalized and *ad hoc*.

Particularly in the months prior to August 15, there were long informal talk sessions stretching into the evening in Paul Volcker's office during which he and a few top aides would turn monetary problems, and ways of coping with them, over and over. This was not a decision forum, and is worth mentioning only because it was one place in which alternatives and issues were constantly being thrashed out.

The interagency "Volcker Group" was meeting regularly during the first half of 1971. The deteriorating payments position and possible measures to redress it were topics of discussion but not with reference to any particular time when action might be needed. In June, the group was particularly in-

volved in developing a U.S. position on wider margins and proposed new rules for temporary currency floats in preparation for the IMF meetings in September. After June, the group met only three or four times through the rest of the year, probably at the express wish of Connally not only that maximum secrecy be preserved, but also that negotiating tactics not be subject to debate in an inter-agency forum.

Within the Treasury, there was contingency planning for the specific monetary measures taken on August 15, and the preparation of background papers both to support those measures and U.S. negotiating positions in the months following. These activities were closely held among a few top aides to Volcker. Assistant Secretary John Petty, T. Paige Nelson, Director of the Exchange Stabilization Fund, and U.S. IMF Executive Director William Dale also participated.

Particularly following August 15, Treasury and Federal Reserve top staff worked closely together in preparation for the various international meetings to follow. But there was little circulation of papers within or among the two agencies.

In other agencies—CEA, NSC, CIEP, State, Commerce—the pattern was one of staff briefing senior officials or agency heads on the implications of breaking monetary and trade developments, gleaning what they could from agency counterparts on measures under consideration and setting out from their viewpoints the pros and cons of these measures. Following August 15, there were numerous informal meetings and memos, the chief object of which can be said to try to break Treasury's monopoly on the negotiating process and the terms of settlement.

Throughout the 1971 period these processes were accompanied by widespread speculation and debate in U.S. media, in Congressional committees, and in foreign capitals over measures that might be under consideration, including suspension of convertibility. And in the late fall, columnists were amply briefed by agency officials on the periphery on the disastrous course the Treasury was following. Thus even if discussions of alternatives were compartmentalized within the government, they were widely aired in public forums.

1. THE PRELIMINARY PHASE

It is difficult to date the beginning of the 1971 monetary decision process. In a sense the groundwork had been laid over a several-year period during which ways to introduce more flexibility into the monetary system, and to manage the payments deficit and the dollar overhang abroad had long been under discussion.

The various measures adopted over a 10-year

period—prepayment of foreign debts to the U.S., controls on foreign direct investment, the swap network, borrowings from foreign banks—were not preventing an accelerating deterioration in our payments position and speculative waves in exchange markets. The U.S. was running out of alternatives.

The United States could add to these palliatives, for example, by seeking in cooperation with other central banks more controls over short-term capital flows, or by borrowings from the IMF.

It could press for a system of more flexible rates and other monetary reforms, but this process was bound to be slow.

It could adopt a severe deflationary policy (unacceptable politically) or wage-price controls and hope that domestic measures alone would help to correct imbalance and stem speculation.

It could press other countries harder for revaluation of their currencies, but the Japanese, notably, were resistant to any such step.

Or it could take the unilateral measures announced on August 15, suspending its obligations under the IMF articles, and seek to force change.

There is no discernible point in the period from March into June when a decision process can be said to have been launched either within Treasury or in an interagency group. Instead, what was building was a mood that decisive action might be called for, but when and under what circumstances was very much up in the air.

The mood was fostered by events—April trade statistics showing that the dwindling surplus had turned into a deficit, an exchange crisis in May during which the Germans and Dutch floated their currencies, and increased demands on shrinking U.S. reserves of gold and other assets.

The mood was also fostered by individuals. In an April memorandum to the President CIEP Director Peterson outlined the changed U.S. economic position in the world and the need to address protectionist pressures and the declining competitiveness of U.S. industry. Secretary Connally made his view of the international scene abundantly clear in a tough speech to a May international banking conference, in which he called for greater burden-sharing among industrial nations. The European-U.S. dialogue was growing sharper.

Even as Treasury officials were maintaining publicly that our worsening payments position was transitory, there was a growing sense that the dollar was overvalued and that fundamental disequilibrium was involved. But also, even as contingency planning was underway in Treasury for unilateral steps, there was clearly reluctance in Treasury, and even more so in Federal Reserve, to recommend those steps to the President.

In March, U.S. IMF Director Dale sent a long confidential memorandum to Secretary Connally

suggesting that if and when the U.S. attempted dollar devaluation, the move should be sudden and kept as secret as possible to avoid the losses that accompanied British devaluation in 1967. At the same time, Volcker requested the preparation of various contingency papers, notably one setting out the powers and duties of the Secretary with respect to maintaining the par value of the dollar.

It is not clear what set off this flurry of activity, but it does not seem to have gone beyond Treasury.

In May, there was another series of contingency papers, covering legal points on various ways to accomplish dollar devaluation and implications for U.S. standing under the IMF Articles. Treasury reportedly prepared a draft statement for the President closing the gold window. What set off these activities was undoubtedly the May exchange crisis, and a sizeable French gold transaction.

This leads to the question why the U.S. did not do in May what it did in August, saving further drawdowns in U.S. reserves and a vast increase in U.S. obligations in the swap network. The answers must be speculative. Some realignment was being achieved through the German and Dutch floats, and Austrian and Swiss revaluations.

More important, Secretary Connally was still feeling his way among different prognoses coming, from among others, his predecessor David M. Kennedy, now Ambassador at Large for International Economic Affairs, Arthur Burns, and his own Treasury staff. He had not yet clearly established his turf. He, like the President, believed in linking international and domestic moves for maximum political effect, and the current domestic economic game plan still seemed firmly entrenched.

2. THE DECISION PHASE

a. The Weeks Prior to Camp David

Sometime in June, a program of new domestic and international economic measures reportedly began to take shape in Connally's mind. However in a June 26 budget meeting at Camp David, the President decided to stick with present policies, and Connally in a following news conference said no changes were contemplated. Connally subsequently undertook a private effort to sell the President on the need for a dramatic change in direction.

At the very end of July, the President essentially signed off on a package which included the wage-price freeze, various fiscal and budget measures, the import surcharge, and most probably the suspension of convertibility. He announced his decisions in a meeting with Connally and Shultz and enjoined strictest secrecy. The most desirable timing for public announcement was thought to be after Labor Day when the Congress would be back.

In the middle of the second week of August, with exchange markets in turmoil and escalating demands on U.S. reserves, Shultz was urgently contacted by Volcker (Connally was on vacation). The President decided on the Camp David meetings and very probably on the participants, who were subsequently called by Shultz.

This is only a bare-bones account of a six-week period in which domestic economic and political considerations—negative opinion polls, an inflationary steel settlement—probably weighed more heavily in the minds of the President and Connally than the U.S. payments position. The international situation triggered the timing of the announcements and the final contents of the package. It does serve to underline the insularity of the 1971 processes.

A period of contingency planning got underway in Treasury in late June on a range of possible domestic and international measures. No one knew all the parts of the package under consideration. Planning intensified in early August. But there was a sense, confirmed later at Camp David, that most of the decisions had been made earlier.

McCracken, in addition to Shultz, may have known the direction in which the wind was blowing in late July or early August, at which point both CEA and OMB began work on alternative scenarios for an incomes policy. But Treasury was ahead.

Federal Reserve and Treasury were certainly in daily contact throughout the July and early August period on gold and swap network transactions. But it was only at an August 5 press conference that the President publicly made peace with Burns. And it is of interest that Shultz, in the week prior to Camp David, briefed Burns on the late July decisions rather than the President.

We have been unable to determine the extent to which Kissinger and Secretary Rogers knew of the pending decisions. Kissinger was almost certainly informed before he left for Paris on August 12 for secret meetings with Le Duc Tho. Rogers may have been given general clues by the President but did not call back his Deputy Samuels or Assistant Secretary for Economic Affairs Philip Trezise from vacation.

In mid-July, CEA staff member Marina Von Neumann Whitman had met with IMF U.S. Executive Director Dale to express her concern over the payments situation, and Dale gave her his March memorandum to Connally to pass on to McCracken.

In the second week of August, Volcker and Samuels discussed the exchange crisis by phone, and Samuels, guessing at what might be pending, set forth views on the need for an import surcharge and his opposition to closing the gold window. He subsequently reported to Rogers.

IMF Managing Director Schweitzer and Deputy Managing Director Southard were also left guessing until shortly before the President's speech on August 15, which they were invited to watch in Secretary Connally's office.

b. Camp David

The meetings at Camp David amounted more to a ratification and implementation process than a decision-making process. The broad outlines of the package had been put together previously. Some of the details remained to be filled in, particularly on the domestic side. A speech had to be drafted, along with supporting fact sheets, a process that continued after the participants* returned to Washington on Sunday.

It was apparent to all that Secretary Connally was very much in charge. There was no heated debate of alternatives or issues. Among the international measures, the surcharge probably was the most controversial, and here the discussion revolved not so much about its desirability as its legality.

The only decisions that may have been half up in the air at Camp David were those to close the gold window and suspend transactions in the swap network. It is unclear whether this was a Presidential gesture to Arthur Burns, who was the only one present who opposed them, whether the President was genuinely undecided, or whether there was concern to limit the fact these steps would be taken to only a few among the Camp David participants.

Unlike the other parts of the package, there was no working party on these measures. When it came time on Saturday afternoon to wrap up the package in general session, the President dismissed all participants except the Quadriad and Volcker for discussion of the convertibility question.

It was reportedly Burns' hope that the wage-price and other domestic measures would suffice to calm the exchange markets, and that it would not be necessary to throw the international monetary system into disarray to get movement toward U.S. objectives.

But the climate at Camp David was not propitious for lengthy exploration of this alternative or long-term implications of the monetary decisions. There was pressure to act. There was an opportunity to

wrap bold domestic and international policies together. And in the event, it was reportedly Burns who pressed for a Sunday night announcement to take advantage of the fact that European exchange markets would be closed on Monday for the Feast of the Assumption.

There are several other points worth noting about the Camp David meetings and the Sunday activities that preceded the President's speech.

First, most of the participants seem to have been pleased with the package, conscious of its historic import, and whatever their reservations, particularly on the turn-around in domestic policy, satisfied that the decision process had been adequate and that either before or during Camp David, all viewpoints had been given a hearing.

Second, some of the participants had twinges about the absence of any representative of the foreign policy establishment. But no one seemed to think this of critical importance. At the suggestion of the President, Secretary Rogers was consulted by telephone several times during the meetings; recollections vary on what subjects. Almost certainly he was told of proposed cutbacks in the foreign aid budget. He may have been consulted on the import surcharge, which he subsequently said that he strongly endorsed. It is unlikely that he was consulted on the gold window.

Third, the number of officials made privy to at least parts of the package of decisions widened on Sunday, but not by very much. They included Kissinger's Deputy Haig and NSC staff assistant for foreign economic policy Robert Hormats, several top Treasury officials who had worked closely with Volcker in preceding weeks, and OMB and CEA staff working chiefly on the implementing papers for the domestic parts of the package.

Under Secretary of State U. Alexis Johnson and the Economic Bureau's Deputy Assistant Secretary Sidney Weintraub were among perhaps about 50 officials who were briefed at the White House shortly before the President's speech. IMF Director Schweitzer, invited to watch the President's speech in Connally's office while Connally was at the White House, was handed the letter notifying the IMF of the U.S. decisions by Volcker 15 minutes before the speech. The gesture was regarded as more insulting than no advance notification at all.

Fourth, various officials had a chance to comment on parts of the President's speech, but not on the whole text. Volcker was unhappy with the portions of the speech that laid the dollar's troubles at the feet of international speculators and assumed no responsibility on the part of the U.S. for international monetary malaise. He reportedly tried unsuccessfully to get them changed. What is of interest here is that State was not the only agency that had a "foreign constituency" to worry about, par-

*Participants at Camp David were: From the White House: Haldeman, Ehrlichman and speechwriter William Safire. (Presidential Assistant Flanigan could not be reached.) Also, from CIEP: Executive Director Peter Peterson. From OMB: Shultz, Associate Directors Caspar Weinberger and Arnold Weber, and recently appointed Assistant Director for National Security and International Affairs, Kenneth Dam. From Treasury: Connally, Volcker and for the Saturday sessions, Legal Counsel Mike Bradford. From the Federal Reserve: Burns. From CEA: McCracken and Herbert Stein.

ticularly when negotiations would be necessary to attain our objectives.

3. THE PRELIMINARY NEGOTIATING PHASE

On Sunday evening, Volcker and Governor Dewey Daane of the Federal Reserve departed on a trip to brief foreign financial officials on the President's decisions. But they had little more specifics to offer than what the President had said and Connally had elaborated on in the next day's news conference.

Indeed, basic U.S. negotiating positions remained to be developed—on the degree of realignment to be sought, on the concessions that would be required for lifting the import surcharge and removing the discriminatory features of the proposed investment tax credit, on monetary reforms that might be sought as part of a package agreement, and on formal dollar devaluation.

During the period August to mid-November, the stance the U.S. would take on these and other issues in meetings of the Group of Ten and their Deputies, the GATT, the IMF, and the OECD's Working Party Three (monetary affairs), was for the most part determined in Treasury, with some participation on questions of detail by Federal Reserve.

George Shultz participated in the drafting of the Connally speech to the IMF and may have had something to do with the offer to remove the surcharge if other countries allowed their currencies to float freely against the dollar. State Department officials and U.S. ambassadors were briefed by Treasury officials but hardly seem to have been consulted. Kissinger showed little inclination to get involved, except at some early point, he asserted NSC's primary responsibility for NATO defense burden-sharing and offset questions.

Secretary Connally was grand strategist and played his cards close to his chest.

The basic strategic decision was that the U.S. could afford to wait while our chief trading partners digested the firmness of U.S. intentions in getting fundamental changes in trade and monetary arrangements. It was up to other members of the Group of Ten to come up with specific proposals for exchange rate adjustments and other concessions. The import surcharge could serve in the meantime as a partial help to the U.S. payments position.

While some Treasury officials would have liked to see an immediate move to get monetary reform under discussion, it was Connally's judgment that the time was not ripe, and that such negotiations could only delay the short-term adjustments being sought by the U.S.

Sometime in late August, Treasury decided not to put forward a specific target for average realign-

ment believing that its estimates of a needed 12% to 15% would shock others into adamant opposition. Instead, it set a general target of a \$13 billion turn-around in the U.S. current account, assuming a deficit in the order of \$4 billion in 1972, and the need for a surplus in the range of \$8 to \$9 billion to rebuild the U.S. reserve position and to cover outflows in other accounts.

This essentially mercantilist position raised some eyebrows at Federal Reserve and other agencies, but there was no real contest. When it was put on the table at a Working Party Three meeting it proved to be as much of a shock as a realignment figure. Subsequently, the OECD group and the IMF both came up with estimates of a needed adjustment in the range of \$8 billion.

The \$13 billion figure and detailed explanations of how it was arrived at were about as specific as the U.S. would be during this period. Following the IMF speech, no precise set of actions that would lead to lifting the import surcharge was spelled out, while our trading partners were increasingly insistent that the surcharge must go as a precondition to serious negotiations.

The need for a U.S. contribution to a realignment in the form of a formal devaluation of the dollar was early put forward in the Group of Ten and pressed with particular insistence by members of the EEC.

Certainly this possibility had been raised in Treasury, Federal Reserve and other agencies before August 15, but it does not seem to have been at the forefront of discussions. There were officials who were opposed not only on grounds of prestige but also on grounds that a change in parity would complicate the realignment process, require compensating increases in U.S. shares in international financial institutions, and for those countries that had agreed to hold large amounts of dollars, would look like a breach of faith. There was also the argument that it would tend to restore an unwanted status to gold.

Following August 15, more pragmatism on this issue probably developed at the top levels of Treasury than indicated in adamant denials that the U.S. would take such a step. The issue became primarily an international political one, and the question, who could exploit it most successfully to bolster his negotiating position.

The insistence with which dollar devaluation would be pressed was probably not anticipated. Similarly, the extent to which some countries would be willing to intervene to prevent any sizeable appreciation in their currencies vis-a-vis the dollar, as well as the extent to which the Japanese and Europeans would be able to concert their positions, was probably underestimated.

In late October, to the considerable concern of

the Treasury-Reserve negotiating team, Secretary Connally left for a 17-day Asian tour on which the only obvious monetary stop appeared to be Japan. He returned on November 13, saying that world monetary uncertainty could continue for an almost indefinite period, and indicating that the U.S. would not suffer if it did.

4. THE SETTLEMENT PHASE

Despite Connally's public stance, he was undoubtedly well aware that pressures for a settlement were building within the Administration. He had postponed a mid-November Group of Ten meeting until late November on grounds that there was insufficient evidence that progress could be made. There was probably some truth in speculation, denied at the time, that the U.S. also needed some more time to formulate its negotiating position.

The decision process from mid-November to mid-December is particularly murky. In addition to Connally and the President, top participants were Burns, Shultz, Kissinger and Peterson. But impressions differ as to when they intervened, particularly with the President, and with what effect. Rogers apparently stayed pretty much aloof from the process.

At no point did a solid front develop. For example, Shultz, however much he may have disliked the import surcharge, was not at all unhappy with the floating dollar whereas Burns was. Moreover, there had been general agreement in August, and it had lasted well into the fall, that a tough stand was needed. And there was clearly reluctance to take on Connally.

But beginning sometime in mid-October, when negotiations appeared to be going nowhere, a hot debate began to develop over the role of the import surcharge and whether the U.S. could realistically expect to attain the trade concessions it was demanding from its partners. Treasury appeared to be taking the position that the surcharge could remain on indefinitely. Others, in CIEP, NSC, and State, were taking the position that it was a bargaining asset of diminishing value, particularly if other countries, as they threatened, retaliated.

It is hard to find a pattern in the interactions of either the President's top advisors or officials at lower levels in the period of mid-October to late November. Peterson called meetings, and consulted with outside experts. Shultz and Kissinger conferred. Deputy Under Secretary Nat Samuels talked often with Burns, whose alarm over continuing monetary uncertainty was growing. NSC assistant Robert Hormats and OMB Deputy Director Ken Dam kept in close touch with each other and Peterson. The Volcker Group held a rare meeting

on November 12, at which Volcker was reported to have been surprised by the vehemence with which most participants argued for a prompt settlement.

The chief object of most of the activity of this period was to generate concern that would reach into the Oval Office, and particularly to get Kissinger's direct involvement.

Increasingly the argument was made, and Kissinger probably took it to the President, that the U.S. could not go to Peking and Moscow with the Western alliance network in a state of disarray. During November, a series of Western summits was being arranged for December and January, during which the President planned to consult with Trudeau, Pompidou, Brandt, Heath and Sato on his forthcoming Eastern summits.

Obviously these meetings would present opportunities to deal with outstanding monetary and trade issues. But if no progress had been made before they took place, they might also turn into hostile confrontations.

Sometime in the latter part of November the decision was made to aim for a settlement before the end of the year and to somewhat lower our sights at the negotiating table. Whether the decision was made by Connally, who sensed a shift in the President's position, or by Connally and the President with the participation of Burns and Kissinger, is unclear.

The decision that the U.S. would accept formal dollar devaluation as part of a settlement and also a realignment that would amount to less than a \$13 billion turn-around in return for lifting the import surcharge was probably also made at this time.

On November 25, the President met with Burns and Connally, following which Burns announced that the President expected definite progress to be made at the November 30 Group of Ten meetings.

The Rome, Azores and Smithsonian negotiations cannot be reviewed in detail here.

What should be stressed is that there was no sharp change in course at the end of November. Connally was still very much in charge of negotiating tactics and still determined to drive as hard a bargain as he could.

The detailed technical planning for the negotiations continued to be centered in Treasury, with participation by a few top Federal Reserve officials, and closely held.

Progress on trade and defense burden-sharing issues was still part of a position paper presented at Rome. And in early December, newly appointed Special Trade Representative Williams Eberle was sent to the EEC with a tough set of proposals which EEC officials characterized as overwhelming.

Only at the Azores was Connally temporarily superseded by Kissinger. It should be noted that Connally and Volcker's reported unhappiness with the outcome of those meetings could well have been shared by Connally's French counterpart, Valéry Giscard d'Estaing. The French were holding out for a definite commitment to dollar devaluation but probably nothing in the range of the "hypothetical 10%" that Connally dropped out of his hat at Rome. They also were reported reluctant to make even vague commitments on trade negotiations.

The President, perhaps also Pompidou, was anxious to emerge from the meetings with some agreement. When the first day's meetings ended in apparent impasse, Kissinger was given a Treasury talking paper for a meeting the next day first with Pompidou and then with Pompidou and the President, during which concessions were made on both sides.

The French apparently conceded that a realignment could be accompanied by wider margins, and specified that they would work with other EEC countries to prepare a mandate for trade negotiations. The U.S. made a commitment to dollar devaluation. No target figure was mentioned in the communique, or could be, given the upcoming multilateral Smithsonian negotiations. However, it was widely reported at the time that a figure of roughly 8% was agreed on, which was what subsequently emerged at the Smithsonian. No commitment was made by the French to upvalue their currency, or in the communique at least, to accept whatever was agreed at the Smithsonian.

The Treasury thought they had not gotten the best deal, and they were probably also unhappy at seeing Kissinger enter the arena with Pompidou, who was more versed on the fine points of international finance. But the President's desire for some kind of announcement overrode.

The Rome meetings, where Treasury had retreated from its \$13 billion figure to a \$9 billion one to be achieved by an average 11% realignment and had broached dollar devaluation for the first time, had moved the settlement process a large step forward. The agreement with the French was another step. However, the other eight members of the Group of Ten, along with Switzerland also had interests to defend.

The ensuing Smithsonian sessions were stormy, with Connally pushing and prodding, negotiating among other countries, while seeking to obtain maximum adjustments upward vis-a-vis the dollar and to link commitments to resolve trade issues with U.S. concessions.

In an unlikely twist, Treasury and Federal Reserve officials supporting the delegation had pocket calculators on which they could compute the likely

trade impact of rate changes, and their Japanese counterparts did not.

There was a race to produce draft communiques (the U.S. team included Jack Bennett and William Dale from Treasury and Robert Solomon from the Federal Reserve) which the U.S. probably won despite a balky Xerox machine.

Thus dollar devaluation was placed in the context of trade negotiations, and the U.S. agreed to propose to the Congress a change in the price of gold when it could announce some results from talks with Japan, Canada and the EEC.

The average realignment was about 11%, including a dollar devaluation of 7.9%. It was less than Treasury and some other U.S. officials thought necessary but more than many in the U.S. government and abroad had thought possible.

The import surcharge and discriminatory features of the investment tax credit were lifted. Both Connally and Peterson subsequently stressed that the realignment should create some 500,000 jobs for U.S. workers, a figure that had been floating around for some months and may have originated with economic consultant E.M. Bernstein.

The Smithsonian agreement left numerous monetary issues unresolved, including a return to dollar convertibility. A general commitment to hasten the examination of these issues was undertaken. The free world returned to a system of fixed rates with somewhat wider margins to increase flexibility. The system proved to be temporary.

II. THE 1973 DECISIONS

A. Overview

The 1973 monetary decisions, like those of 1971, were a response to conditions of continuing instability in the exchange markets, and taken during acute market crises. Yet the atmosphere was far less highly charged, both within the U.S. government and abroad.

This was in part because somewhat less secrecy was involved, at least insofar as the March decision to go for a system of floating rates is concerned. It was also due in part to the style of Secretary of the Treasury Shultz and the various ad hoc arrangements he used to bring interested parties into the decision-making process.

But the main reason for the less charged atmosphere was simply the fact that the big wrench from the 1944 Bretton Woods system had been made in 1971. Convertibility was still a hot issue, but the world had been living with the U.S. decision not to

return to convertibility pending monetary reform for a year and a half.

What was unthinkable in 1971 in terms of dollar devaluation and floating rates had become by 1973 not only thinkable but more readily accomplished both at home and abroad. Further, U.S. officials had been working intensively over a period of nine months on a wide-ranging proposal for reform of the monetary system. And following the 1972 IMF meetings, the Committee of 20 had been appointed, which brought some of the countries left out of the 1971 decision process directly into a negotiating forum on reform issues with the Group of Ten.

1. ISSUES

The Smithsonian realignment began to come unstuck in the summer of 1972, when the British pound and the Italian lira came under heavy attack in the exchange markets and the British resorted to floating.

It became increasingly obvious, as some U.S. officials had predicted in 1971, that the realignment had been insufficient to restore stability to the markets and that the new dollar rates were not credible.

Given the fact that exporters were likely to take some of the gains from dollar devaluation and that the price of imports would increase, there had been no expectation that the trade account would show any substantial improvement in 1972. However, all during the year the deficit ran at a rate larger than the \$4 billion predicted before dollar devaluation.

The announcement in late January 1973 of a whopping \$6.8 billion deficit for 1972 helped to set off the February-March market crisis, which was the worst the monetary system had yet experienced.

Also helping to set off the crisis was the President's decision in early January to lift the Phase II mandatory wage and price controls and to move to the more voluntary Phase III system, arousing fears that the inflationary spiral in the U.S. would resume and that there would be a new influx of dollars to Europe.

The possible international impact of that decision was apparently raised in discussions among the President's economic advisors, but assigned little weight. Fresh from an election victory, the President wanted to move, and the mandatory system certainly did not have strong defenders in Shultz or CEA Chairman Stein.

In February, there was also a clear linkage of domestic and international economic policy issues. The possible inflationary impact of a 10% dollar devaluation was discussed by U.S. officials, not discounted, but in retrospect, by

agreement of most participants, underestimated.

Throughout the crisis period of late January to late March, most of the 1971 issues reemerged in debates within and among the U.S., Japanese, and European governments.

Concerted action would be required to restore orderly market conditions, but unilateral measures were always a possibility to force others into positions of accommodation. Thus from Representatives Wilbur Mills and Henry Reuss came suggestions that the U.S. reimpose an import surcharge either to improve the trade balance or to persuade other countries to accept the market's verdict on the dollar.

In both February and March, the EEC countries, led by Chancellor Willy Brandt of West Germany, appeared to be turning the tables, and coming up with an agreed "catalogue of suggestions" for U.S. steps to improve stability, as well as a proposal, being worked out without U.S. participation, for a joint float of European currencies against the dollar.

High on the list of European suggestions was U.S. intervention to maintain an agreed rate structure between U.S. and European currencies, restrictive U.S. credit policies to attract Euro-dollars back to the U.S., and the issuance of long-term Treasury bonds with guaranteed exchange rates, also proposed as a means of soaking up dollars in European markets.

By early February U.S. Treasury and Federal Reserve officials had reached the conclusion that a further devaluation of the dollar and/or revaluation of certain other currencies would probably be necessary. Questions remaining up in the air were how much of a realignment to seek, and whether to press for a system of flexible rates or stick with fixed rates and the limited flexibility offered by wider margins.

Particularly sensitive both in February and March was the degree to which the U.S. would be willing to commit itself to intervene in the market to support the dollar. The Federal Reserve swap network, the use of which had been suspended in August 1971, was reopened in mid-1972, at which time the U.S. undertook some small-scale support operations, followed by others at the beginning of the 1973 crisis.

Federal Reserve Chairman Burns tended to be more favorable to intervention and preservation of a fixed rates system than CEA and Treasury officials, but the lines were not sharply drawn. Before his arrival at Treasury, Shultz was known to be a supporter of a floating rates system with minimal if any intervention. Some of his associates thought his approach became much more cautious after he took over the post. He may simply have been biding his time.

2. THE DECISION ARENA AND INTERESTED PARTIES

The interested parties were certainly as numerous in 1973 as in 1971, and most of the key actors, domestic and international, were the same. However, there had been some changes at the top of U.S. agencies, the most important of which was the replacement of John Connally, who resigned in May 1972, by George Shultz. The President had subsequently made Shultz, more explicitly than Connally, the Administration's "Czar" for domestic and foreign economic policy.

Shortly after his appointment, Shultz took the initiative in setting up a top-level ad hoc group to deal with monetary reform and related issues. It consisted of Shultz, Volcker, Herbert Stein, who had replaced McCracken as Chairman of CEA, Peter Flanigan, who had replaced Peter Peterson as CIEP Executive Director, and Secretary of State Rogers. In Shultz's absence, Volcker chaired meetings.

State was without a top economic affairs official at the time, Deputy Under Secretary Samuels having resigned in the spring. There followed a long hiatus until the appointment of William Casey to the new position of Under Secretary for Economic Affairs in February 1973, and shortly thereafter he began to stand in for Rogers. Kissinger was informed of the group's existence and knew he could attend meetings, but apparently rarely did so. He also still lacked a top deputy in economic affairs. OMB Director Weinberger may have felt he should have been included, but international monetary affairs was not regarded as his field.

The group was serviced, at least for the development of the U.S. monetary reform proposal put forward in the September 1972 IMF meetings, by a spin-off of the Volcker group.

By 1973, the Shultz group had been meeting regularly over a period of several months. It was close-knit, and even as Treasury and Federal Reserve officials set out to negotiate in February and March, agency heads who were not part of the negotiating team felt they were included in the decision process.

The group's existence was not known publicly, and certainly was not widely known in the bureaucracy. This was regarded as an asset for the fielding of international monetary issues. While the group usually met at the level of principals only, Federal Reserve Governor Dewey Daane would occasionally accompany Burns, and Volcker's deputy Jack Bennett might also be present. Kenneth Dam, who had been brought to OMB by Shultz, might also be asked to sit in, not as a representative of OMB but as a close advisor to Shultz.

Unlike the lower-level Volcker Group, the group

Shultz initiated was not encumbered with a tradition of having several members of Treasury staff, along with at least two participating members from other agencies usually in attendance.

In December 1972, President Nixon named Shultz assistant to the President for economic affairs and Chairman of a new White House coordinating body, the Council on Economic Policy (CEP). Although Shultz had been acting *de facto* as the leading economic spokesman for the Administration, the new hat gave him a charter to work both with White House agencies and with the Departments before policy decisions went to the President.

CEP scarcely had a staff of its own. Only in February 1973 did Kenneth Dam move from OMB to the West Wing of the White House to supervise paperwork for CEP, which was largely farmed out to other agencies.

Given its large membership, including the Secretaries of Agriculture, Commerce, Labor and Transportation, CEP was an unlikely forum for discussing sensitive monetary decisions at any level. What is important to note is that in effect CEP subordinated two other White House agencies—CIEP and the Office of the Special Trade Representative—to Shultz, and that in the person of Shultz, the central coordinating role in foreign economic policy went to Treasury.

Commerce Secretary Peter Peterson was not asked to stay on in the new Administration, and Shultz also took over his chairmanship of the U.S. delegation to the joint U.S.-U.S.S.R. Commercial Commission and became head of a new East-West trade policy committee. Roy Ash succeeded Weinberger at OMB. He did not become part of the Shultz monetary group, but as a member of the Quadriad did participate at least in the March decisions in a meeting with the President.

As in 1971, while U.S. officials were deciding on measures to meet the February and March exchange crises, the issues were also being debated in Congress. In February, the Joint Economic Committee was holding its annual hearings on the Economic Report of the President, which included an annex setting out in considerable more detail than at the September IMF meetings the U.S. position on a reformed monetary system.

In March, both Senate and House banking committees were holding hearings on the February dollar devaluation bill. During both sets of hearings, impatience was expressed with the pace of the monetary reform negotiations. And from Representative Reuss and others came strong opposition to any inclination to yield to European demands for intervention in support of dollar exchange rates.

On the international scene, the once exclusive

Group of Ten found itself enlarged. The Committee of 20 asserted its right to participate in negotiations that would affect its deliberations on reform, and its President Ali Wardhana and Chairman of its Deputies Jeremy Morse were brought into the March proceedings. Denmark, Ireland and Luxembourg, all members of the EEC but non-members of the Group of Ten, also were invited to participate at the insistence of the EEC.

B. The Decision Process

The 1973 decision process was forced by a market crisis of unprecedented proportions, which abated briefly following the February devaluation, and then reemerged full-blown in March.

While U.S. officials had anticipated the need for another realignment, they appear not to have expected the severity of the 1973 crisis or its emergence early in the year. More than in 1971, key decisions had to be made rapidly and while negotiations were actively underway.

1. FEBRUARY

The decision to formally devalue the dollar by another 10% was made in the week of February 6 to 11 as Under Secretary for Monetary Affairs Paul Volcker traveled around the world negotiating successively with Japanese and European officials.

As the market situation began to deteriorate rapidly in late January, the Shultz group met almost daily. A number of alternatives were discussed including a realignment without formal devaluation and a floating system. While some kind of ball-park figure on the degree of realignment needed must have been decided, it remained to be negotiated with our chief trading partners.

Shultz cleared a set of alternatives with the President and Volcker departed. His trip was known only to members of the Shultz group, probably Kissinger and a few top officials at Treasury and Federal Reserve. It was only when he reached Bonn on February 10 that he was spotted by the press, and Treasury acknowledged he was undertaking a round of discussions on the monetary situation.

These discussions were concluded on February 11. On February 12, Shultz held a press conference attended by Burns, Flanigan, Rogers and Stein to announce the formal devaluation of the dollar. The Japanese yen would be allowed to float upward for an indefinite period, and the Canadian dollar, British pound and Swiss franc would continue to float. The U.S., Schultz stressed, had undertaken no commitments to intervene.

Whether the route of formal devaluation was the preferred one before Volcker departed is unclear.

However, it did not seem to be a major political issue either for the U.S. or other parties. The French probably pressed for it. The size of the devaluation accepted was generally seen as a European concession with a view to preserving the relationship between their own currencies. The Japanese found themselves outflanked. Both the Japanese and French remained opposed to a general system of floating.

Some distinctive features of the decision process in the week of February 6 should be underlined. The process was a three-cornered one involving Volcker as the point man, U.S. Ambassadors in the various capitals he visited, and Shultz, meeting with a small group of aides at Treasury and conferring with the President and members of the Shultz group. The President was directly drawn in when he was called by Willy Brandt in mid-week.

The process required constant communication between Volcker and Shultz, and Volcker and Ambassadors who had to take over where he left off. The latter had to be well-briefed, and have the confidence of the foreign financial officials with whom they conferred, sometimes, as in the case of Ambassador Robert Ingersoll in Japan, at all hours of the night.

By and large, the participants appear to judge the process to have worked smoothly, to feel that the strict secrecy was necessary, and that those who needed to know had been amply consulted. The IMF appears to have had little more warning than in 1971. It was known that its top officials favored U.S. intervention, financed if necessary by borrowings from the IMF. As for the Group of Ten, it was not regarded as a suitable forum for the speedy negotiations required. However, finance officials from some of the countries not involved in the negotiations were attending BIS meetings in Basel late in the week of February 6, and were undoubtedly briefed on the imminent decisions.

2. MARCH

For the March decisions, from which a system of managed floating rates emerged, the Treasury-Federal Reserve negotiating team simply moved to Paris for a week. Whereas the U.S. had initiated the February negotiations to get a further realignment that it thought necessary, in March the initiative came from Europe and had the appearance of a decision in the making in which the U.S. was not being asked to participate.

U.S. officials had thought there was a better than even chance that the markets would calm following the February devaluation. However, in the third week of February there was panic buying of gold and a new wave of speculation was set off against the dollar, requiring huge interventions in Euro-

pean and Japanese markets on March 1 and the closure of the markets on March 2.

On Saturday March 3, the new market crisis, along with intensive efforts among the EEC countries to reach agreement among themselves on a joint float against the dollar, was discussed at a meeting of the Quadriad and Volcker with the President. The President suggested that Shultz confer with Kissinger, who up to this point had been minimally involved in the 1973 decisions.

Given a general concern that the Europeans might be reaching agreement on matters of great interest to the U.S., it was decided that Shultz and Volcker should seek a meeting with the Europeans. There ensued some sensitive negotiations during which the U.S. denied and then announced that it was "invited", along with other non-EEC members of the Group of Ten and representatives of the usual international agencies and of the Committee of 20, to attend a Paris meeting on March 9.

Rogers and State Department officials were almost certainly brought into the negotiating process in the week prior to the March 9 meetings. Whether the Shultz group met has not been determined, but the issues that were to come up in Paris in the week of March 9 to 16 were ones that had been amply discussed in the meetings of the group preceding the February decision.

The question of whether to concur in a joint float of EEC currencies does not appear to have generated much controversy among U.S. officials. What was more difficult was how to respond to the EEC "catalogue of suggestions", including U.S. intervention to stem large fluctuations in dollar rates, which was presented at the March 9 meetings.

The catalogue was largely inspired by the French, who were reluctantly moving to agreement with their European partners on the joint float. Shultz' response was low-key, non-committal, and conciliatory, to the apparent surprise of the Europeans. The March 9 communique announced no decisions, other than a directive to the Group of Ten Deputies to resolve certain "technical" questions before a new meeting on March 16 preparatory to the reopening of exchange markets on March 19, and a reaffirmation of confidence in the general correctness of the exchange rate relationships agreed to in February.

In the following week, Shultz went to Moscow for U.S.-U.S.S.R. commercial talks. Volcker went to Brussels where the EEC members hammered out an agreement on a joint float, without the participation for the time being, however, of the British, Irish and Italians. The Germans announced their intention to revalue upward by 3%. Volcker and Governor Dewey Daane of the Federal Reserve met with other Group of Ten Deputies. Support was provided by top Federal Reserve and Treasury offi-

cials who remained in Paris for the March 16 meetings.

The U.S. decision process in that week is difficult to characterize. The Treasury-Federal Reserve delegation appeared to have a mandate to do pretty much what they thought best. Shultz had met with the President before the delegation left. Burns, who was part of the delegation, was known to be in favor of intervention to preserve the semblance of a fixed-rates system. But how heatedly this issue was argued within the delegation is unclear.

The "technical" questions assigned to the Group of Ten Deputies revolved about intervention, measures to restrain short-term capital inflows, and implementation of the EEC joint float and of a previously announced U.S. decision to phase out controls on long-term capital outflows.

There appeared to be no need for urgent consultation with the President or with agencies not represented on the U.S. delegation.

The March 16 enlarged Group of Ten communique was a masterpiece in ambiguity. It took note of the decision of six EEC countries plus Norway and Sweden to maintain 2-1/4 margins between their currencies, while the U.K., Italy, Ireland, Japan and Canada would continue for the time being to float their currencies individually. It was agreed in principle "that official intervention in exchange markets may be useful at appropriate times to facilitate the maintenance of orderly conditions . . .", but there were no definite undertakings other than a commitment to consultation.

Shultz reportedly gave some verbal assurances that the U.S. was not unalterably opposed to intervention, but despite European and Japanese pressures, the U.S. held off market intervention until July.

The March 16 agreement ushered in the present system of "managed" floating rates.

What remained on the agenda were trade and monetary reform negotiations, whose slow pace had been one of the causes of the 1973 crisis.

III. ASSESSMENT

A. Some Common Features of Exchange Rate and Related Monetary Decisions

The 1971 and 1973 decisions share some features that are likely in greater or lesser degree to be present in future exchange rate decisions.

First, the issues are likely both to be highly technical and to have large political ramifications, international and domestic. Beyond arguments over fixed versus floating rates, margins, the timing and

degree of central bank market intervention, and responsibilities for adjustment by surplus or deficit countries lie sensitive considerations of national prestige, competitive advantage, and jobs.

The politics of oil is likely to add still another dimension to these decisions.

These linkages argue either for sensitivity to the broad international political picture on the part of the top decision-makers, or an input from those whose chief responsibility it is to put the pieces of this picture together.

Second, since the decisions may be taken in response to, or set off, huge speculative movements of funds, they impose requirements of secrecy and speed. It is hard to imagine the emergence of a monetary system where the market will simply be allowed to work its will or the adjustment process will be so finely tuned that crises will simply disappear.

At the same time, the array of interested parties—U.S. agencies, international institutions and foreign governments—is large. There is a dilemma of how to prepare for and anticipate the most important issues involved in those decisions while holding their timing and content confidential. To ensure that the most important parties are included requires good working relationships among the top officials concerned, based on, domestically, respect for agency competence and standing with the President, and abroad, quality representation and relations of confidence developed over a period of time.

Third, beyond the inevitable linkage of trade and monetary issues is the equally inevitable impact domestic economic decisions have on international monetary events, and the reverse impact monetary decisions have on the domestic economy. Close coordination among the top officials involved is required and, possibly, someone wearing a hat that is labeled economic in the broadest sense to bring the strands together. But perhaps more important is attention to the information problem, that is, ensuring that the technical information and analyses that are available are fed into the policy process, and that gaps in knowledge that inhibit the predictability of outcomes are at least identified and taken into account.

Fourth, these decisions usually involve international negotiations even if they originate in unilateral actions. Thus there are constraints on the achievement of objectives. There are requirements for a realistic appraisal of what is obtainable as well as for negotiating tactics that are determined and pursued with an eye both to getting as much as we can and to keeping a good base for future negotiations. Again, this implies a need for coordination with negotiations in other areas and a political input.

B. Process and Organization in 1971 and 1973

Some introductory comments are in order.

First, the two series of decisions must be placed in context. As already noted, the 1971 decisions were unprecedented, and far more dramatic and controversial than those of 1973. They were part of a package of domestic and international measures that was intended to have a large political impact at home and abroad. Considerations of personality and organization aside, the atmosphere was bound to be charged, the process, at least in its implementation phases, messy, and the negotiations, turbulent.

Second, the organization of the government for economic and foreign policy decision-making was basically the same in both periods. There were two "czars", one for foreign policy and one for economic policy. The system was White House-centered. While Shultz wore a White House hat that Connally did not, both had essentially the same mandate from the President to take the lead in coordinating economic decisions and pulling in the participants they thought necessary.

Third, that the system worked differently in the two periods, and during Shultz's tenure, left fewer interested parties feeling bruised, was chiefly a function of the style and organizational preferences of the two economic policy "czars". The top-level ad hoc Shultz group obviously smoothed the monetary decision-making process in 1972 and 1973. But there is no guarantee that another economic "czar" would form such a group, unless the President insisted, or that it would work if it did not suit the mode of operations of the "czar."

Similarly, there was no guarantee that the inter-agency Volcker Group would function in the way originally contemplated for the Deming Group with a different set of actors and a different structure in the White House.

* * * *

The 1971 decision process must be faulted chiefly for its failure to bring appropriate participants into the process on a regular basis in all phases, and for negotiating tactics that rendered difficult negotiations more difficult still.

The most conspicuous participants missing, of course, were the State Department, and until very late in the season, the President's chief foreign policy advisor Henry Kissinger. But particularly in the weeks following Camp David, the participation of other top-level advisors was *ad hoc* in the extreme. There was no joint refinement of objectives as negotiations proceeded. And there was little sense at levels below the top of what might be getting to the President in the way of alternatives and consequences.

That the inclusion of the foreign policy establishment at Camp David would have changed the decisions made there is highly doubtful. And a top-level forum meeting regularly following Camp David might not have changed the Secretary of the Treasury's negotiating strategy or the President's apparent concurrence in that strategy. But it certainly would have reduced the sense of frustration felt at other levels of the bureaucracy, and prevented at least to some degree the atmosphere of emotionalism and conspiracy that built during the October-November period.

And while such a forum might not have changed the outcome at the Azores, it might have prevented what appeared to be a sudden displacement of roles and responsibilities, and permitted a better molding of political and monetary concerns over a period of time prior to the meetings.

The abrasive negotiating style of Secretary Connally—the blunt assertions that the Europeans ought to be more grateful for what the U.S. had done for them, and that the Canadians should aspire chiefly to be raw materials producers for the U.S.—was much criticized at the time and afterwards. It heightened tension and probably resistance to negotiations.

But among Connally's critics who were on the scene, there is also admiration for his skilled bargaining once the negotiating process got into full swing and his rapid mastery of the monetary details.

A somewhat similar conclusion can be reached about the import surcharge, which appeared to be overkill and to set a dangerous precedent, and the trade objectives that were announced along with the monetary objectives, which appeared to overload the negotiating agenda. Among the officials who took exception to both at the time, there is now a belief that we might not have been able to obtain what we did at the Smithsonian without over-stating our case and driving it home with the surcharge. And there is also the distinct possibility that rather than encouraging protectionism in the Congress and various sectors of the public, the announced program helped to appease it.

A further point must be made about the suspicion of foreign governments of the period. It was identified with the Secretary of the Treasury. But at the time of Camp David and well into the fall, it was an outlook shared by numerous other top members of the Administration, parts of the public and the Congress. It is hard to imagine a decision process that could have changed this.

On the subject of secrecy, it appears excessive in 1971 despite the sensitivity of the monetary and wage-price freeze decisions, but this reviewer is satisfied that as far as the strictly monetary decisions are concerned, a full range of alternatives had been amply explored before Camp David.

What seemed to be missing in both Treasury and

Federal Reserve was detailed planning for what would follow Camp David. In part, this may be attributed to some disbelief on the part of top officials that what had so long been discussed in terms of formally suspending convertibility and seeking new dollar exchange rates would actually be decided.

From both the 1971 and 1973 decisions, this reviewer draws the conclusion that it would be useful to have State Department and White House representatives of high technical competence and below the top level involved in the detailed contingency planning undertaken in Treasury and Federal Reserve and serving as part of the support team for monetary negotiations. Such participation would not have changed outcomes in 1973, and probably not in 1971. It is an idea that will be stoutly resisted by Treasury and Federal Reserve. But it would respond to some of the considerations set out at the beginning of this assessment.

Enough has been said previously about the 1973 decision process to raise no questions about its general adequacy here, other than these:

As suggested above, it might have been useful to flesh out the top-level group, as far as contingency planning was concerned, as was done for development of the monetary reform proposals of 1972.

The integration of domestic economic policy and monetary policy left something to be desired, but not for lack of forums in which the issues could be discussed.

The Shultz group worked well, but it did lack, not for want of initiative on the part of Shultz, regular participation by NSC, which was the locus of foreign policy decision-making at the time.

C. Outcomes

Their assessment must necessarily depend to some extent on the stance taken on numerous international monetary issues, many of which are outstanding and which cannot be explored here.

From the point of view of this reviewer, realignment was needed in 1971, the formal suspension of convertibility was a necessary move in the direction of overhauling the system of reserve assets, the formal devaluation of the dollar was desirable to get realignment both in 1971 and 1973, and the system of managed floating rates that emerged in 1973 was preferable to efforts to preserve a fixed rates system.

This said, answers to several questions must be attempted.

Should we have worked within the IMF framework to get the adjustments we thought necessary in 1971, or at least made an effort before we took unilateral steps? It is doubtful that this route would have been fruitful, and a lengthy discussion of con-

vertibility would probably have left us with few reserve assets to talk about. However, some consultation gestures toward top IMF officials that need not have gone into specifics might have elicited more understanding and sympathy in the negotiating phases for the U.S. position.

Could we have obtained the larger realignment some U.S. officials thought necessary in 1971, and thus conceivably have prevented the emergence of the 1973 crisis? The answers must remain speculative.

Some officials on the scene thought that a bullying manner on the part of the Secretary of the Treasury at the Smithsonian prevented a somewhat greater realignment. But the consensus at the time was that if anything the U.S. got a larger adjustment than most had thought possible. That the trade deficit in 1972 far exceeded predictions was due at least in part to domestic economic policies that did not restrict demand. And these policies, along with the switch from Phase II to Phase III, helped to produce the crisis of 1973.

Was the dollar devaluation of February 1973 unnecessarily large, and should the U.S. have pressed harder for a direct move to a floating system? The answer to the last part of this question appears to be that the Japanese and French remained to be convinced by further market uncertainty, and possibly also, some Treasury officials and the Federal Reserve. As to the first part of the question, it must be left to debate among monetary experts.

By the end of 1973, the U.S. trade account was showing definite improvement. And but for the oil embargo and the steep escalation in the price of imported oil, the U.S. trade account in 1974 would show a healthy surplus.

The failure to obtain any substantial short-term trade concessions in 1971 was a disappointment to Treasury officials. The Japanese did relax some of their import quotas, and the Canadians made a few concessions. From the EEC, what was chiefly obtained was a commitment to enter new long-term trade negotiations. These negotiations opened in the fall of 1973.

As for long-term monetary reform, one legacy of the 1971 period and the tactics used by the U.S. may have been to generate ill will that made this process more difficult. However undesirable the tactics, this point should not be exaggerated. The differences in this area were and remain fundamental. Secretary Shultz began the fence-mending process in 1972. The Committee of 20 reported only in June of 1974, and put several of the issues back in the lap of the IMF Executive Directors. And here also, the oil crisis has intervened, outdating some recommendations of the Committee, adding imponderables to the working of the present system, and requiring new efforts to hold together the

fabric of international monetary cooperation.

Despite the storm and stress accompanying the 1971 negotiations, the U.S. monetary decisions of that year, along with those of 1973, must be accounted as successes in terms of bringing about a needed adjustment in U.S. payments position, heightening recognition of the need for fundamental change in monetary arrangements, and putting into place, however reluctantly and forced by market events, an interim system that appears to work reasonably well.

D. The Performance of Alternative Structures

It is virtually impossible to speculate on the performance of alternative structures in 1971 and 1973 without changing the occupants of all the top level positions, including the Presidency. It is only underlining the obvious to say that personality strongly influenced the way the system worked in 1971 and 1973, and would obviously be an important factor in the working of alternative systems.

The comments that follow leave positions blank, are addressed to the future, and are set in the context of the characteristics and requirements of exchange rate and related decisions described in the introduction to this assessment. One very important assumption is made in all these comments: it is that Treasury should and will continue to have the lead role in international monetary affairs, although the interaction of energy and monetary problems will impose even more requirements than in the past for coordination with other agencies.

For discussion purposes, the Commission's research staff has posited four alternative models of the foreign policy process: a strong White House system under which the process would be dominated by a powerful Presidential assistant and a NSC staff; a strong State Department system under which the Secretary would be the President's principal adviser and overall manager in foreign affairs; a "two-tiered" system which more explicitly than the strong White House model would relegate the State Department to a reporting and implementing role with policy development and coordinating responsibilities lying in a large White House staff headed by an adviser bearing the title of Secretary of State; and a decentralized model under which no single individual below the President would be preeminent in foreign affairs, Cabinet officers would enjoy extensive authority, and coordination would be more *ad hoc* than under the other models.

The hypothetical strong White House system would be likely to have the following deficiencies

for the handling of the monetary decisions with which we are concerned: Its staff would be too large, its coordinating mechanisms too formal. More than likely a small *ad hoc* group would be formed and would operate outside the formal NSC structure, whether that structure had a separate foreign economic policy staff and assistant for international economic affairs or not. That group would most likely be serviced chiefly by Treasury, making the NSC staff to some extent redundant. If it were serviced by NSC, Treasury staff work would not disappear, there would just be duplication of paperwork. To some extent the disadvantages of this kind of structure can be seen in the working of CIEP in 1971 and 1973 insofar as monetary affairs were concerned.

It is hard to imagine the strong State system being workable if it meant that State chaired whatever coordinating bodies existed for international monetary affairs, and had oversight over the development of monetary policy. Treasury simply wouldn't accept it. The best way to assure the necessary participation of State in monetary affairs is to have a strong Secretary, and a strong Under Secretary for Economic Affairs with enough expertise and clout to be recognized as a peer by Treasury and Federal Reserve, and to pull together within State the economic and political strands of policy.

The hypothetical two-tiered system is objectionable for the same reasons as the strong White House system with a large staff. The coordinating councils will simply be bypassed for top-level sensitive decisions, and *ad hoc* arrangements will spring up.

It is unclear what role is contemplated for NSC

staff under the decentralized model. But this model might be more efficient and feasible than the other models insofar as monetary affairs are concerned. This assumes a small NSC staff, a national security assistant and a top-level international economic assistant whose chief responsibilities would lie not so much in policy development as in ensuring that coordination took place, that the right people were consulted, and that the President heard all sides.

If the model means that there is no resident high-level NSC staff expertise in the international monetary field, then it places too much of a burden on the President to inform himself and ensure coordination in a highly technical area with large domestic and international political ramifications. However, it should be noted that one Treasury official who was on the scene in both 1971 and 1973 spoke with approval of a process that took place in the early 1960s when CEA Chairman Tobin, Under Secretary of State for Economic Affairs George Ball, Treasury Secretary Douglas Dillon and Under Secretary for Monetary Affairs Robert Roosa would argue out the issues in the Oval Office. Obviously, this requires a President who has the time and inclination to get directly into the fray.

One last note on the Shultz group. If the group were to be formalized, it would probably acquire an agenda and minutes, and be less useful, particularly from the viewpoints of Treasury and Federal Reserve, for the discussion of sensitive pending monetary decisions. And as already noted, it would reduce the flexibility of the Secretary of the Treasury to rearrange membership in the group according to issues, and give rise to claims to participate from a growing number of agencies.

The New Economic Policy, 1971

Linda S. Graebner
November 1974

DECISION ABSTRACT

On the evening of August 15, 1971, President Nixon appeared before a nationwide television audience to announce the most sweeping new domestic and international economic policy in four decades. After a weekend meeting with his closest economic advisers, the President did the "unthinkable" by ordering a 90-day wage, price, and rent freeze and cutting the dollar loose from the historic \$35 an ounce gold price. In addition, President Nixon enacted almost every other economic measure supported by his critics in the last few months, including:

- the imposition of a 10% surcharge on imports
- request to Congress to
 - 1). restore the investment tax credit at 10%
 - 2). repeal the 7% excise tax on automobiles
 - 3). advance to January 1, 1972, income tax cuts scheduled for January 1, 1973.
- \$4.7 billion in budget cuts by
 - 1). reducing federal jobs by 5%
 - 2). deferring a federal pay increase
 - 3). postponing the start of general revenue sharing for three months
 - 4). postponing the start of welfare reform for one year.

The President's decision culminated two and a half years of failure in achieving the goals of full employment, price stability, and a favorable international trade position, through the gradual use of the traditional economic tools of monetary and fiscal policy.

1971 brought sluggish growth in the economy, increasing unemployment, increasing inflation, and the continuing loss of confidence in the U.S. dollar abroad. Both the President's chief critics and many of his personal advisers began to recommend a dramatic change in policy but only John Connally, newly appointed Secretary of the Treasury, was able to convince the President to overcome his philosophical dislike for wage-price controls and his

fear that he might be the first President to devalue the dollar. Once the President was convinced of the political propriety of these two policy changes, his desire for a comprehensive and dramatic program led to the inclusion of various other options designed both to build confidence abroad in the domestic economy and to take a new protectionist stand economically against our traditional Western allies.

The New Economic Policy decision process was dominated by one individual, John Connally, and one agency, the Treasury Department. Conflicting policy objectives and alternatives were debated within the Treasury Department. The various alternatives were never presented or discussed at the Presidential level. The process was also completely secretive, with little contingency planning. The new program was kept so secret that before the President's public address, at most 30 individuals in the country knew of his decision. Japan and Canada, our major trading partners, were only notified one hour before the announcement of the policy change.

The reaction abroad was generally one of confusion and distrust at this dramatic and unilateral U.S. move to impose a 10% surcharge on imported goods, to recommend an investment tax credit that discriminated against foreign goods, and to recommend establishing a Domestic International Sales Corporation which would provide incentives to increase U.S. exports. On the other hand, many countries, particularly those in Europe, were relieved that the U.S. was finally making a strong effort to control her domestic inflation by the institution of wage and price controls.

The reaction of the American public was overwhelmingly favorable. Most citizens did not understand the negative effect of a potential dollar devaluation, but they did understand that, although their wages would be frozen, at least they would not see increases in prices and, particularly, rents because of the wage-price freeze.

The reaction, both internationally and domesti-

cally, was much more dramatic than either the President or his advisers had predicted. International criticism increased to the point of threats of retaliation if the surcharge was not quickly removed. John Connally continued to stall international negotiations in the fall of 1971, hoping to retain the surcharge as a permanent device to aid our balance of payments position. Although finally removed in December, 1971, the import surcharge served as an essential bargaining tool in international negotiations, particularly in gaining an equitable settlement on monetary exchange rates with the Japanese. The surcharge was, however, a catalyst in our continuing loss of credibility in the areas of international trade and monetary policy that has yet to be repaired.

Miscalculations on the domestic front were just as significant. The President hoped to use the wage-price freeze as a temporary stop-gap and return to free markets at the end of 90 days or, at most, six months. Hardly could the President or his close advisers imagine that controls would become so politically popular and so difficult to remove that they would last an additional two and a half years through four phases and two freezes.

The economic distortions of the U.S. experience with economic controls are only now showing up in serious commodity and supply shortages in select industries. Although controls worked effectively to suppress inflation through the first year of their life, continued use led to public mistrust and serious cost-push inflationary pressures, causing serious market distortions.

Study Organization

President Nixon's decision to support a New Economic Policy in August, 1971 was a series of decisions on various options rather than a single policy decision.

The New Economic Policy can be crudely divided into four component parts based on policy objectives:

1. International monetary policy changes to improve the position of the dollar in world markets. These included suspension of gold convertibility and the floating of the dollar with respect to other currencies.
2. International trade policy changes to improve the U.S. balance of payments position. These included the import surcharge, the Domestic International Sales Corporation (DISC), and the Job Development Credit (as it discriminated against foreign-manufactured goods).
3. A wage-price freeze as a short-term means for controlling domestic inflation.
4. A composite of domestic tax and spending proposals known as the Fiscal Stimulus Package

as a means for expanding the economy and thereby reducing unemployment.

With such a varied menu of proposals, issues, objectives, and interests, it is impossible to adequately address organizational process and outcomes without considering the New Economic Policy in its component parts. The emphasis for coverage will be primarily in terms of organizational process and arrangement and secondly, in terms of foreign policy implications.

The policy emphasis for the study will be as follows:

1. International trade policy issues, addressing the import surcharge, DISC, and Job Development Credit.
2. Wage-price freeze.

The domestic fiscal policy issues will be discussed only in the context of the entire economic package, largely for lack of space and perceived lack of relevance to the Commission's charge.

The international monetary policy issues will also be discussed only in the context of the entire policy, as they will receive more in-depth coverage in a separate Commission study dealing with the 1971 dollar devaluation.

I. THE DECISION AND ITS BACKGROUND

A. Decision Environment

1. ECONOMIC ENVIRONMENT

Domestic

By mid-1971, the U.S. economy faced three serious problems:

1. The Gross National Product (GNP) was rising, and a continued rise could be expected; but the rise was not as fast as was desirable, especially from the standpoint of unemployment. (GNP is used here as a measure of economic growth).

The unemployment rate, which had been predicted at 4.3%, stood at 6.2 percent, with Democrats claiming the true figure was higher.¹ This high level persisted despite a highly expansionary monetary policy in early 1971.

In addition, this more sluggish growth rate in the economy than had been anticipated had contributed to a fiscal 1971 budget deficit which promised to exceed \$20 billion, more than \$21 billion

¹Edward Knight, *Economic Policy and inflation in the United States: A survey of developments from the enactment of the Employment Act of 1946 through 1972*, p. 393.

larger than the Administration's original goal announced in January, 1970, of a \$1.3 billion surplus.

2. Although the rate of inflation had stopped rising and might have declined, the decline was not clear-cut, and there was some danger that the rate might rise again.

From January through April, the rise in consumer prices fell off to a seasonally adjusted annual rate of 2.9%, which was half the year-to-year rate recorded in 1970. This proved, however, to be only a temporary improvement. From April through July prices rose by a seasonally adjusted annual rate of 4.8%, heightening inflationary expectation throughout the economy.²

There was great concern that further economic expansion, in a time when inflation psychology was high, might cause increased inflation based primarily on consumer expectations.

3. The U.S. international balance of payments position was deteriorating sharply and the confidence in the dollar abroad was ebbing.

The U.S. balance of payments deficit, on an official reserve transactions basis, rose from \$9.8 billion in 1970 to \$31.2 billion in 1971.³ For the first time since 1946, the U.S. experienced a balance of trade deficit in 1971.

International

By 1971, the United States position both in international monetary and trade policy was rapidly deteriorating. The position of the dollar in world markets was becoming insecure, the dollar considered to be significantly overvalued. Two explanations were given for this overvaluation: (1) the external monetary position of the U.S. was in fundamental disequilibrium throughout the 1960s making the U.S. unable to finance all its foreign commitments; (2) poor wage and price productivity performance of the U.S. economy between 1965 and 1969, relative to its trading partners, significantly lowered the competitiveness of U.S. goods. Throughout 1970, as the U.S. was suffering a minor recession, U.S. trading partners were experiencing unprecedented growth in trade and industry. For example, the U.S. share of the world GNP declined from 33.9% to 30.2% from 1961 to 1971.⁴

A stable and dynamic U.S. economy was the key to a sound U.S. external financial position and world confidence in the dollar, and this was rapidly eroding. With rising U.S. inflation, other countries began to accuse the U.S. of exporting its inflation abroad. U.S. inflation can have both a direct and

indirect effect abroad. The direct effect is achieved by passing increasing prices directly through exports to nations, such as Canada, who are highly dependent on U.S. exports and whose labor rates vary almost directly with U.S. rates by membership in the same international unions. The indirect effect is realized in two ways. First, reduction in the balance of goods and services (excluding investment) by the U.S. indicates an increase in foreign exports to the U.S., leading to demand-pull inflation abroad. Second, an overall decrease in the U.S. balance of payments and a decline in U.S. interest rates relative to rates in major European countries creates more money abroad, also inducing demand-pull inflation. (Demand-pull inflation is caused by too great a level of expenditure as opposed to cost-push inflation which is caused by rising costs of production).

Unfavorable international exchange rates and discriminatory trade barriers severely hampered the U.S. ability to compete in world markets on equal terms. The technology lead once enjoyed by the U.S. was rapidly being eroded by foreign manufacturers, particularly the Japanese.

By 1971, economic problems with the Japanese had become an increasing U.S. concern. By mid-year, Japan's favorable trade balance with the U.S. had reached a rate double that of any previous year, resulting in a significant portion of our balance of payments problems. The Japanese had refused to revalue the yen since 1949, creating a sizable international trade surplus which exceeded half a billion dollars per month from March to August, 1971.

In May 1971, the U.S. experienced a mini-monetary crisis. Further deterioration of world confidence caused the Swiss franc and the Austrian schilling to be revalued, and the German mark and The Netherlands guilder to be set free to float. This crisis opened a new era in European relations. With such a significant representation of European countries concerned about the value of the dollar, the blame was logically laid with the U.S. dollar as a major problem in the world economy.

In July and August 1971, world exchange rates were unsettled and the massive flow of dollars had increased in magnitude. This crisis was due primarily to inflationary wage settlements in steel and several other key U.S. industries and resultant fears that the U.S. had not only lost the battle against inflation but had also given up trying to fight it. Speculation against the dollar increased, and private and public pressures to convert the dollar into other assets (foreign currencies and, ultimately, reserve assets or equivalent) became overwhelming. From the beginning of January to August 1971, the U.S. paid out approximately \$3 billion in reserve assets (of a total holding of \$14.5 billion), 40% of this in early August.

²Ibid.

³*Economic Report of the President*, 1972, p. 150.

⁴Peter G. Peterson, *The U.S. in the Changing World Environment*, December 1971.

2. ORGANIZATIONAL ENVIRONMENT

The following section highlights the interests, activities, and inputs of the various institutional and individual actors in the development of the New Economic Policy.

The President

President Nixon, against his earlier beliefs, made the final decision to adopt the New Economic Policy in August 1971. President Nixon had narrowed his economic policy options in 1969 when he condemned the use of an incomes policy as an abnegation of fiscal responsibility and claimed that he would never use one. He found equally distasteful the potential for a change in international exchange rates for fear of adverse domestic political reaction. He found the "old time religion" of the gradual use of fiscal and monetary policy and the use of a balanced full employment budget, a preferable strategy. By June, 1971, however, the President's frustration had increased over the ineffectiveness of his policy of gradualism and he was beginning to consider the 1972 election on the horizon. Press reports highlighted the fact that, unless President Nixon cured the country's economic ills, he might be only a one-term President.

Key Presidential Advisers

The Troika, composed of the Secretary of the Treasury, John Connally; Chairman of the Council of Economic Advisers (CEA), Paul McCracken; and the Director of the Office of Management and Budget, George Shultz; remained the President's key advisers for both domestic and international economic planning and forecasting.

The Secretary of the Treasury had traditionally been the leader of the group, by protocol only. In reality, the personalities of the group's membership dictated who would be the Chairman at any point in time. John Connally's entrance as Secretary of the Treasury in February 1971, returned control of the Troika, and Cabinet preeminence, to the Treasury Department. Connally's input and policies were key to the President's New Economic Policy decisions.

George Shultz, a predominant force behind the continuation of the policy of gradualism, had previously held the dominant role in the Troika. In addition to his OMB responsibilities, Shultz had been appointed White House Economic Adviser. His office was moved from the Old Executive Office Building to the West Wing of the White House and was only a few seconds' walk from the Oval Office.

This relationship resulted in the further eclipse of the Council of Economic Advisers under Paul McCracken. Prior to Shultz's arrival, McCracken

had been the Chairman of a relatively unaggressive Troika. The Council's economic forecasts were receiving increasing criticism as overly optimistic. Neither was President Nixon supportive of the Council's expansionist views on solving the nation's economic problems.

Treasury Department

John Connally and the Treasury Department played the lead role in the development of the New Economic Policy package during the summer of 1971. The announcement of the Connally appointment in February 1971 was received with derision and cynicism in the business and political communities. Connally was not an economist nor a banker, the normal background of a Treasury Secretary. He did, however, have a good relationship with the President through his work with the Ash Commission for Executive Office Reorganization in 1970 and he soon showed his subordinates his ability to learn quickly about the details of economic policy.

By June, 1971, Connally had captured the President's ear on the full range of federal policy-making, and became the dominant voice for economic policy in the Troika. With his personal authority and style, Connally restored to the Treasury Department its traditional status of Cabinet preeminence. The Department's influence had waned for the previous 15 years under less aggressive leadership.

Connally was concerned that the Administration's economic policies were inadequate to stop rising inflation and unemployment. With the 1972 election approaching, Connally felt that the President should take action on a major new economic initiative including some form of incomes policy.

Connally took a protectionist stance on the international monetary front. He sought monetary reform as a means not only to improve the U.S. balance of payments position, but also as a device to increase domestic employment. (Edward M. Bernstein, consultant to the Treasury Department, estimated a dollar devaluation could provide 500,000 jobs, a .5% change in the rate of unemployment). He also favored an import surcharge and a plan for stimulating exports to improve the U.S. balance of payments position.

Connally assigned the development of the component parts of the New Economic Policy package to various bureaucratic actors in the Treasury Department in such a way that only he could perceive the scope of the package.

Paul Volcker, Undersecretary for Monetary Affairs, played the lead role in the development and organization of the international monetary parts of the package. Although the Treasury Department

bureaucracy remained wedded to the notion of fixed monetary exchange rates during the Spring of 1971, Volcker was moving toward a policy of either greater flexibility in exchange rates or renegotiation of exchange rates between U.S. and foreign currencies.

Murray Weidenbaum, Assistant Secretary for Economic Policy, had favored an incomes policy as a supplement to monetary and fiscal policy since early 1970. Weidenbaum viewed an incomes policy as a device for controlling domestic inflation. Volcker supported Weidenbaum's policy choice, but for different reasons. Volcker saw a number of advantages internationally to controlling the U.S. economy, using it as a means for increasing confidence in the dollar and improving the U.S. trade and monetary position.

John S. Nolan, Deputy Assistant Secretary for Tax Legislation, played the lead role in the analysis of various tax incentive programs, investment stimulants, and export stimulants. Although Nolan and his staff presented economic data and options on fiscal matters to Connally for his decisions, Nolan was more closely involved in the development of the Domestic International Sales Corporation (DISC) proposal, which was designed to help small businesses more effectively compete with large businesses in the export markets.

Office of Management and Budget (OMB)

Under the direction of George Shultz, OMB had assumed a new and more powerful role under the Nixon administration than ever before. Not only was Shultz in the trust of the President, but he also upgraded the capabilities and size of his staff to meet new responsibilities in the management, coordination, and economic policy areas. A new top level group had been added to the agency. Caspar Weinberger left his position as Director of the Federal Trade Commission to become chief of the Budget staff. Arnold Weber, industrial relations expert, left the Department of Labor to become chief of the Management Staff. Kenneth Dam arrived from the University of Chicago in August, 1971, to serve as Shultz's international economic adviser. Arthur Laffer became Shultz's principal economic adviser and forecaster. With increasing resources at his disposal, Shultz soon challenged and later dominated much of the economic forecasting and planning efforts of the Council of Economic Advisers.

Although OMB was rapidly expanding its outlook, its major policy concern remained the control of the federal budget. In 1970 and 1971, the agency's major concern was one of contraction of that budget, to try to achieve the surplus promised by the President. Shultz was also skeptical of the CEA's optimistic forecasts and preferred to continue the policy of gradualism domestically.

On the international front, Shultz supported a move to flexible exchange rates or a readjustment in current exchange rates which left the dollar overvalued.

Council of Economic Advisors (CEA)

The CEA was primarily a domestic policy oriented group and did not have any capability in the area of international monetary policy, nor was that ever intended.

Paul McCracken, as Chairman, largely played a behind-the-scenes role in economic policy. He continued to meet with the President on a regular basis, indicating that he and the Council still played a significant role in policy development. McCracken, in particular, did not want a public or politically visible role in the formulation of policy, finding that such a role would make it more difficult for the Council to maintain its important interface with the economic profession. (Herbert Stein, a member of the Council in 1970-71 and McCracken's successor in late 1971, was more outspoken and public in his viewpoints, almost to the point of criticism by the profession.)

The Council's optimistic 1971 economic forecasts were criticized by many in the profession and in government as unrealistic. McCracken favored an expansionist fiscal policy as a means to reach that forecast, a policy President Nixon rejected as late as June, 1971.

The Federal Reserve

The Federal Reserve Board, and particularly its Chairman, Arthur Burns, was not as closely tied with the formulation of economic policy as the other members of the Quadriad, mainly because of the independent nature of the Federal Reserve Board. (The Quadriad was composed of the membership of the Troika plus the Chairman of the Federal Reserve Board.) Arthur Burns once referred to this independence as not setting the Board apart from the rest of the government, but a limited type of independence within the government that has been respected by most Presidents.⁵ Based on his former tenure on the CEA and as President Nixon's White House Economic Adviser, Burns had experienced considerable access to the President and was well aware of the structure and operations of economic policy in the White House. Largely because of his desire to maintain an independent role, Burns remained as outspoken as before, but no longer enjoyed the close access he once had to the President.

In May 1970, Burns broke with the Administration by suggesting consideration of an incomes policy as a supplement to fiscal and monetary meas-

⁵ *Washington Post*, September 8, 1974, p. 12.

ures. As Burns said, "We should not close our minds to the possibility that an incomes policy, provided it stopped well short of direct price and wage controls and was used merely as a supplement to overall fiscal and monetary measures, might speed us through this transitional period of cost-push inflation."⁶

State Department

The State Department, under Secretary William Rogers, was not an effective force in international economic policy in 1971. The State Department had been conducting some limited high level discussions on the matter of an import surcharge. Communications were largely between Nat Samuels, Deputy Under Secretary for Economic Affairs, and Phillip Trezise, Assistant Secretary for Economic Affairs. General disagreement with a surcharge proposal had been expressed and Secretary Rogers was known to have conferred with the President on that fact during the summer of 1971. Nevertheless, neither Rogers nor any other representative from the State Department was included in the Camp David economic policy meeting in August.

The Department faced inherent weaknesses in a government dominated by a John Connally. The State Department had traditionally represented the foreign constituency, with greatly conflicting objectives with Connally's protectionist viewpoint and was not represented by any domestic constituency.

Council on International Economic Policy (CIEP)

Three points led to the creation of CIEP in January 1971: the clear need to separate international economics from foreign policy, Henry Kissinger's refusal to move into the area except on big issues, and the total inefficacy of the Special Trade Representative (STR).

Peter G. Peterson, Director of the Council, identified as first priority the international trade situation. As a component of trade policy, Peterson and his staff developed options for an import surcharge and various export incentives. Peterson also began to prepare a report to the President on the state of international economic policy, discussing the changing world environment and the need for the U.S. to take a more protectionist posture in international economic affairs.

Other Domestic Agencies

Various constituent agencies were largely excluded from economic policy development in 1971. Not only were most secretaries of domestic agencies ineffective in communicating their views to the

President, but John Connally also, as Secretary of the Treasury, refused to allow the agendas of other agencies to surface.

The Department of Commerce, with its industry constituency, had lost much of its credibility under Secretary Maurice Stans partly due to the Japanese textile negotiations. Commerce had been active in 1970 in supporting DISC and became more involved in the wage-price freeze organization following the August 15 announcement.

The Department of Labor was also not consulted by Connally or the President in the development of the New Economic Policy. The Labor Department was importantly involved at a later stage in negotiations with labor representatives over provisions for and management of the wage-price freeze and later controls.

3. POLITICAL ENVIRONMENT

The economy was viewed as the most controversial and highest priority policy issue in 1971. Public opinion was significantly negative on the President's handling of the economy. Various indicators and public opinion surveys showed that the President's old game plan was not stabilizing prices or fostering economic recovery fast enough to make an acceptable showing in 1972 and that the public did not approve of the results of the Administration so far.

Congress

Throughout 1971, the Congress became increasingly vocal about President Nixon's inability to manage the economy, particularly those who saw the 1972 election nearing. Democrats and Republicans agreed that the shape of the economy had been the central issue of the 1970 Congressional elections, but no one predicted how deeply the 1970 recession would cut into the Republican position in the Congress.

The Joint Economic Committee was the Congress' chief watchdog on the President's economic program. In its March 29, 1971, report, the Committee found "serious deficiencies" in the Administration's programs and judged the Administration's goals unlikely to be achieved.⁷ The Committee asked for a clear-cut wage and price control program and a speed-up in planned tax reduction. Both proposals were intended to stimulate the economy to faster growth in order to reduce unemployment.

Congress had already shown some interest in both credit controls and wage-price controls in general. In December 1969, Congress, over strong Republican opposition, had passed a bill giving the President authority he did not want and had not

⁶ *National Journal Reports*, May 30, 1970, p. 1126.

⁷ *Congressional Quarterly Almanac*, 1971, p. 60.

sought to impose mandatory credit controls. On May 18, 1970, Congressman Wright Patman, Chairman of the House Banking and Currency Committee, threatened in a floor speech to impose credit controls by legislation: "If the President does not act, and if he does not bring about lower interest rates and economic stability, the Congress must act. If the Administration does not act, we will bring down interest rates by statute."⁸ Congressional Democrats generally supported wage-price controls and in August, 1970, passed the Economic Stabilization Act authorizing the President to control wages, prices, and rents. By August, 1971, even Republicans began to actively support some form of wage-price control program.

Few Congressmen had either an interest in international monetary policy or expertise on the subject. Congressman Henry Reuss was the leading Congressional actor in this area and supported more flexible exchange rates.

Congress took a protectionist stance with respect to international trade, considering such legislation as Burke-Hartke which would impose severe restrictions on imports.

Business

The business community as a totality was a diverse constituency with little collective input to the Administration and the Congress.

The lead actor was the U.S. Chamber of Commerce, an active lobbying force on the Hill, testifying on most economic issues. The Chamber's official policy was against any form of wage-price controls. By November 1971, the Chamber changed its mind when the majority of its membership indicated approval of the new wage-price program.

The Committee for Economic Development (CED) was a large group of business executives, publishing at regular intervals, significant policy papers on the state of the U.S. and world economy. Each report was a consensus of the Executive Committee, considered representative of most business opinion. On November 23, 1970, the CED issued a policy statement saying that the U.S. needed new tools to combat the increasing inflation and rising unemployment, and recommending that the government establish a three-person board on prices and incomes to develop "broad norms of appropriate noninflationary wage and price behavior that would give some guidance to business and labor groups."⁹

One of the most telling departures from Nixon's economic game plan was on October 17, 1970, by

the Business Council, a group of top corporate executives who met every six months at Hot Springs, Virginia, to analyze government economic policy. In a news conference, Chairman Fred J. Borch announced that the Council thought the Administration "should explore other things rather than rely purely on monetary and fiscal restraints, the classic devices used to stop inflation."¹⁰

Labor

Labor's most effective and most vocal spokesman in 1971 was George Meany, President of the AFL-CIO. Although Meany did not usually have direct White House access during the Nixon Administration, he did use Congress effectively as a forum for conveying the labor viewpoint.

Labor's dominant concern in 1971 was the increasing level of unemployment in a relatively stagnant economy. Meany vocally supported an expansionist fiscal policy, particularly additional federal funding for public service jobs and welfare programs. He also expressed support for Burke-Hartke legislation as a means to halt the exportation of American jobs, technology, and capital.

Meany referred to the New Economic Policy as the "old Republican trickledown theory with a different wrapping."¹¹ Because the program exempted corporate profits, dividends, and interest rates, Meany considered it discriminatory and a gift to business.

B. Decision Background And Chronology (1969-1971)

Because of the compartmentalized nature of the New Economic Policy, one unifying decision process does not exist prior to August 15, 1971. For this reason, a separate background and process section will be included in Section 1 (Government Recognition of the Problem) for each of the following component parts: import surcharge, DISC, Job Development credit, and the wage-price freeze. Each of these subprocesses will lead up to the point in June 1971, when Connally first brought the components together to form a package. This package will be the unifying thread in Section 2 (Government Decision) for a discussion of the process from June 1971 through the President's public announcement on August 15, 1971. Section 3 (Policy Action and Implementation) will again break apart from the single process to discuss the results of the various component parts.

⁸ *National Journal Reports*, May 30, 1970, p. 1128.

⁹ *CED, Further Weapons Against Inflation: Measures to Supplement General Fiscal and Monetary Policies*, November 1970, p. 53.

¹⁰ *National Journal Reports*, December 26, 1970, p. 2811.

¹¹ Statement by George Meany, 9th Constitutional Convention of the AFL-CIO, November 18-22, 1971.

1. GOVERNMENT RECOGNITION OF THE PROBLEM

a. International Trade Measures—Background

The international trade measures proposed in 1971 (the import surcharge, DISC, and discriminatory Job Development Credit) must be viewed in the context of U.S. international monetary policy during that period. In a time of deteriorating U.S. trade position, a number of alternatives are available to remedy this situation. The proposal supported by academic groups was international monetary reform leading to floating international exchange rates. Not only was such a policy considered extreme by the bureaucracy in early 1971, but the possibility of a unilateral U.S. dollar devaluation or a change in exchange rates with the U.S. dollar was not even considered as a possible alternative.

In a world of fixed exchange rates, incentives can be devised to discourage imports and encourage exports as a means for improving the U.S. dollar balance of payments. The Import Surcharge and the DISC are two examples of this type of incentive.

b. The Import Surcharge

An import surcharge, in reality equivalent to half a dollar devaluation, would decrease the competitiveness of foreign goods in U.S. markets. The idea of a surcharge was not new. It had been tried on a temporary basis by any number of European and Western hemisphere nations; in fact, Great Britain had used it four times in recent history. A surcharge, though, was not considered lightly for it usually evoked tremendous outcries from other nations about unfair trade practices and it might be found illegal under the General Agreement on Trade and Tariffs (GATT). It was always used as a temporary device as a means for improving a country's balance of payments position in the short run, only.

Throughout 1971, it was generally known throughout the government that a surcharge was being considered, and that work on it was underway, but much of the consideration was scattered throughout the bureaucracy and little record was kept of any option papers or deliberations.

Most observers indicated, however, that the idea for a surcharge in 1971 germinated in the newly formed CIEP under the direction of Peter Peterson. Trade legislation was Peterson's main charge and he expanded that role into trade policy in general. In the development of his report to the President, Peterson identified the import surcharge as an effective means for reversing our balance of payments in the short run. Peterson had not been in-

volved in monetary affairs and did not have much background in that area, but he did realize that early in 1971 any talk of devaluation was politically unsound and a surcharge was his only other option in recommending some way to deal with the U.S. adverse trade position.

In the spring of 1971, Peterson and his deputy, Deane Hinton, had received advance copies of the forthcoming report of the Commission on International Trade and Investment Policy, which had recommended the use of an import surcharge to alter trade accounts.

At the same time, Congress had been hotly considering the Burke-Hartke legislation, favored by labor, which would establish mandatory quotas on most imports. Opposed to this legislation, Peterson thought that an import surcharge might be one way to buy off labor and the Congress in order to avoid the passage of this legislation.

Connally was aware of Peterson's work on a surcharge and by June 1971 had included the surcharge in his package of proposals for the President. Connally's interest in the import surcharge stemmed from two viewpoints: (1) he saw a surcharge as a protectionist trade device that would be supported by labor and the public in general, and (2) he saw the surcharge as a bargaining tool in the event that the President decided to approve monetary reform. Even if the link to gold was broken, Connally felt other countries might not approve and might refuse to revalue their currencies. Passing a surcharge carried an advantage, as it could be maintained until they agreed to revalue or to let the U.S. devalue at a favorable rate.

In early July, Connally indicated his support for the surcharge, and asked Paul Volcker to develop further options for such a proposal. Volcker refused, expressing disagreement with such a policy. After the President agreed to the surcharge in early August, Volcker felt he no longer had a choice and asked Michael Bradfield, Treasury's Associate General Counsel, to develop position papers on the legality of such a surcharge.

c. Domestic International Sales Corporation (DISC)

DISC was first considered in the Treasury Department as early as 1968. The genesis for the idea was not the U.S. international trade position, but rather the perceived inequitable benefits to large corporations which could shield their exports from U.S. income taxes by complicated procedures of selling through foreign subsidiaries. The Treasury Department tax staff was concerned about this provision because of the windfall available to large corporations which was not feasible to obtain for small companies or newly exporting companies.

The DISC plan essentially facilitated the creation of domestically based export subsidiaries which could obtain significant income tax advantages. This plan was discussed in an interagency working group chaired by John Nolan of Treasury throughout 1969 and 1970. The Commerce Department under Secretary Stans was the major proponent of the plan while the State Department was the primary opponent. The proposal was modified, a consensus reached, and it was later included in the Trade Reform Proposal of 1970. The Trade Reform Proposal was subsequently passed by the House of Representatives but later killed by the Senate, and with it the DISC proposal.

In July 1971, John Connally asked John Nolan to develop various options to encourage U.S. export trade. In addition to the DISC, Nolan considered two other options including a Value Added Tax, used by the Europeans, which involves a fixed percentage rate rebate to exporters for products; and tax deductions for exports. Wilbur Mills, Chairman of the House Ways and Means Committee, asserted that the Value Added Tax was regressive and would not be approved by his Committee. Nolan excluded tax deductions for exports because they appeared to be a direct subsidy to business and no incentive for exports. As a result, the DISC was chosen as a means for both an equitable distribution of tax benefits to exporters and for stimulating exports to help our balance of payments position.

d. Job Development Credit

The Job Development Credit, better known as the Investment Tax Credit, was first instituted in 1962 as a means for encouraging business investment in capital equipment. The credit had been repealed in 1969 due to an overheated economy. With a sluggish economy, it was hoped that a return of the credit would again stimulate business investment, encouraging industry to modernize its plant to increase productivity. This higher productivity would, hopefully, lead to increased price stability, an important economic objective in 1971.

Secretary Connally started asking Nolan for macro-data on the economic effect of various forms of investment credits and other investment stimulants in July 1971. Nolan's tax group had already considered the benefits of the credit and now, with this positive sign from Connally, knew that action would be taken soon.

The international effect of the credit was indirect, encouraging companies to build capacity in the United States rather than building outside the U.S.; thus it was hoped it might raise the level of exports slightly.

In the final hours of the proposal's development on August 13, Connally informed Nolan that, since

he had already decided on an import surcharge, imported goods should be exempt from the benefits of the credit, thereby further discouraging foreign imports. Nolan claimed that such a move made no economic sense except as a protectionist trade device and that it would be almost impossible to administer. Regardless, Connally included the provision in the final policy.

e. Wage-Price Freeze

President Nixon's August 15, 1971, announcement of a wage-price freeze was the result of a movement toward some form of incomes policy since early 1970. An incomes policy is a program of government influence or intervention in wage and price decisions in the private economy in order to curb inflation. The variations of such a policy range from the most restrictive, mandatory freeze of all wages and prices to a temporary, voluntary Wage-Price Review Board to oversee inflationary trends. Both of these options and many in-between were considered by a variety of government and outside actors in the period of late 1969 through 1971.

Early in 1969, President Nixon made clear his dislike for controls and assured the nation that his Administration had no intention of using them. He preferred instead to use a policy of gradual fiscal and monetary restraint to cool the overheated economy.

Monetary and fiscal restraint worked more quickly than expected and by early 1970 the economy "bottomed out." By this time, there was a growing consensus among students of the economy that the dual objectives of relative price stability and relative full employment could not be met unless the Administration adopted some form of incomes policy, as well. This view largely surfaced because the previous demand-pull inflation of the late 1960s had by then become a cost-push inflation, with catch-up wage settlements resulting in rapidly increasing prices.

Murray Weidenbaum, of the Treasury Department, was the first Administration official to seriously consider an incomes policy in early 1970. Weidenbaum worked jointly with Paul Volcker throughout 1970 in the development of various options, deciding the most appropriate was a six-month total freeze followed by a voluntary wage-price review program. In further developing this option, Weidenbaum organized an internal Treasury Department task force which spent months analyzing the success or failure of previous incomes policies in the U.S. and abroad, and the legal justification for such a program.

By May 1970, many Administration officials came out publicly, for the first time, in favor of an incomes policy. In a May 18 speech in which he criti-

cized the Administration's overreliance on monetary policy, Arthur Burns, Chairman of the Federal Reserve Board, suggested consideration of an incomes policy as a supplement to fiscal and monetary measures. On the same day, HUD Secretary George W. Romney, called for the creation of a Presidential Commission to publicize the effect of wage and price increases and to subject them to public pressure.

Although the White House continued to deny any consideration of such policies, President Nixon began to consider some modest policy change that might soothe his Administration's critics.

In June 1970, the President made his first concession to the advocates of an incomes policy by announcing three actions designed to enable the government to monitor more closely the inflationary conditions in the economy: (1) He created the National Commission on Productivity, composed of representatives of business, labor, the general public, and the federal government. Its basic function was to recommend to the President policies to increase the rise in national productivity. (2) He announced the creation of a Regulations and Purchasing Review Board which was charged with reviewing the impact of inflation on federal procurement practices. (3) He instructed the Council of Economic Advisers to prepare periodic inflation alerts to spotlight "specific cases or general features of exceptionally inflationary wage and price behavior."

In August 1970, the Congress took more decisive action passing the Economic Stabilization Act, part of the Defense Production Act, giving the President authority to stabilize wages, prices, salaries, and rents. He could freeze them across the board or selectively at any level, back to their May 25, 1970 level.

The Administration took steps in early 1971 in three industries whose wages and prices, in the Administration's view, were gaining at a rate that could threaten the success of the anti-inflationary program. First, it sought to increase the supply of oil by relaxing limitations on imported oil from Canada and permitting the production of oil on federal offshore leases without restriction by state regulatory commissions. Second, it succeeded in encouraging the steel industry to rescind part of its recent price increases for structural steel. Third, the President made it clear that the nation would not tolerate a continuation of runaway labor costs in the construction industry.

When it became apparent that the Administration was not going to get restraint in the construction industry, the President in late February 1971 suspended the Davis-Bacon Act, which required contractors on government funded, assisted, or insured construction to pay the highest prevailing

union wage scales. After further negotiations with labor and management interests in the industry, the Administration succeeded in getting the parties to agree to a cooperative program of cost restraint. On March 29, 1971, the President reinstated the Davis-Bacon Act. Concurrently, he, for the first time, used the authority given him under the Economic Stabilization Act by issuing an executive order formalizing the stabilization program on which labor officials had agreed. The President created the Construction Industry Stabilization Committee (CISC), composed of 12 members, four each representing labor, management, and the public. The Committee was given the authority to take steps designed to stabilize wages and prices in the construction industry. Specifically, all changes in the industry required approval by the Committee before they could be put into effect.

At the same time, in February 1971, the Administration modified its position on wage-price control authority. Treasury Secretary Connally, in testimony before the House Banking and Currency Committee, stated that the Administration would support an extension (through March 31, 1973) of standby authority provided under the Economic Stabilization Act of 1970.¹² He added, however, that "we do not believe that a network of general wage-price controls is needed at this time, nor do we believe that the American people would long stand for such regimentation, under present circumstances." The act was extended by Congress, but with new limitations. Congress was not happy with the selective controls instituted just for the construction industry. Thus, the new authority limited the President to comprehensive actions only.

Since Connally's arrival in February 1971, Weidenbaum and Volcker had continued to express to him their disillusionment with domestic inflation, proposing a wage-price freeze followed by voluntary controls. By June, Connally agreed that this was the correct option and would try to convince the President to act.

2. GOVERNMENT DECISION

By June 1971, Connally began to push for a major change in both domestic and international economic policy. He had considered each of the major parts of a potential package (monetary policy, import surcharge, incomes policy, and fiscal measures) with the corresponding components of his department and was convinced of the merits of each. His staff had convinced him of the shortcomings of the existing economic policy; hence, he felt that comprehensive action had to be taken soon.

¹²U.S. House of Reps., Committee on Banking and Currency, Hearings, February 23-26, 1971, testimony of John Connally, p. 5.

His next step was to induce the President to take action.

At his annual economic planning summit held on June 26, 1971, the President was described as abrupt in his denunciation of any change in policy and responded with what many referred to as the four no's: no to (1) tax reduction, (2) increased federal spending, (3) wage and price controls, and (4) a wage and price review board to monitor and influence wage-price decisions. Although Connally had not yet succeeded in influencing the President to change his policy, he did emerge from the meeting as the Administration's chief economic spokesman, an expression of the President's continuing trust.

From this date onward, Connally and the President met frequently in the Oval Office to discuss the economic picture. Connally spent nearly a month trying to convince the President to institute a comprehensive package of economic changes, particularly the wage and price control program. The President continued to waver, but finally, by early August, was convinced to accept the whole package as Connally presented it, unsure only about the international monetary package (the closing of the gold window and the floating of the dollar).

At this time, George Shultz was also included in top level meetings. When the decision was made in early August, the President insisted that the three present were the only ones to know and suggested that early September, when Congress returned from its recess, was an appropriate time for the announcement.

While these meetings were taking place, events in the Treasury Department were providing further ammunition for Connally in his discussions with the President. On July 8, Volcker met with John Petty (Assistant Secretary for International Affairs) and William Dale (U.S. Executive Director of the International Monetary Fund) to confer on the June balance of payments figures which were just released. After viewing these statistics and the continual erosion of our position, Volcker decided that immediate action on the international monetary front was imperative and conveyed that message to Connally.

Connally also conferred with Michael Bradfield, Associate General Counsel, later in July and asked him to draft option papers on an import surcharge: its legality, technical feasibility, and operations. Connally also asked Bradfield to draft an Executive Order for a Wage-Price Freeze, although Connally had no specific details at that time.

Although Paul McCracken was out of the central decision making process, he still conferred with the President on other matters. At such a meeting in mid-July McCracken commented to the President that he felt we needed something on the economic front of "Peking proportions." He suggested the

closing of the gold window and floating of the dollar. McCracken knew of the President's bias toward what he called the "big play" and he stated that the President reacted excitedly to his comment. The President called Connally and asked him to meet with McCracken right away, and from then on the President was talking about large, comprehensive actions.

At another impromptu meeting between the President and McCracken in late July, the President casually mentioned McCracken should spend some time looking into options for wage and price controls and a freeze. About one week later, the President met with all three members of his Council of Economic Advisers, an unusual meeting for any President. He talked about possibly going to controls, although Herbert Stein felt at that time the President was leaning toward a full fledged controls program. The President asked the Council to prepare two option papers: one for a complete freeze and the other for an intermediate package. Although Herbert Stein favored the intermediate position and thought McCracken would too, McCracken's interests lay more with the freeze paper, an indication that the President had informed McCracken that his decision had already been made.

Concurrently, George Shultz asked staff member Arnold Weber to prepare an option paper on the pros and cons of a wage-price freeze. Typical of his style, Shultz kept high level policy information from even his closest subordinates and told Weber the memorandum was for his use in testifying before the Joint Economic Committee that fall. Weber set to work with two members of his staff, Earl Rhode and William Kohlberg, both of whom would later play an important role in the implementation of the freeze. When presented with the memorandum, Shultz asked for a version containing more specific operational mechanics and Weber and his staff went back to work.

Tuesday, August 10, just three days after Connally had left for a Texas vacation, Volcker came to Shultz with the latest figures on the demand for gold. The figures were so high that both Shultz and Volcker decided that monetary decisions could not wait for September and the return of Congress. The first immediate move was to call Connally back to Washington.

By Thursday, President Nixon had decided to convene a meeting of his chief economic advisers that weekend at Camp David. George Shultz informed the participants that evening. The group included:

White House

—John Ehrlichman,
H.R. Haldeman,
William Safire
(Presidential speech
writer), Peter Peterson

	(Executive Director of CIEP)
Treasury	—John Connally, Paul Volcker
CEA	—Paul McCracken, Herbert Stein
Federal Reserve Board	—Arthur Burns

More interesting were the actors not included, notably Secretary of State William Rogers, National Security Adviser Henry Kissinger, and White House Adviser Peter Flanigan. Secretary Rogers, although not invited, was contacted from Camp David by H.R. Haldeman to inform him of what had been decided. Henry Kissinger was in Paris at the time and either was not contacted or did not consider the meeting a sufficiently important reason to return. Peter Flanigan was vacationing and could not be reached.

Camp David Policy Meeting

President Nixon called this momentous meeting to order at 3:00 PM, Friday, August 13. Connally chaired the meeting rather than the President, indicating to some that major decisions had already been made and it was more an implementation than a policy meeting. Although the international questions had prompted the timing of this meeting, it was soon clear that the domestic issues (the wage-price freeze and the Fiscal Stimulus package) were predominant and those were quickly discussed and approved.

The international questions posed a much greater problem. There was considerable discussion on the legality of the surcharge both under the Trade Expansion Act and under GATT. On the international monetary policy, Arthur Burns strongly held out against closing the gold window and the meeting ended with a decision to implement the entire package, awaiting a later decision on the monetary policy. The President dismissed the group, except the Quadriad and Volcker, who stayed for further discussions on the monetary policy.

By Friday evening, the second tier officials had arrived, including Arnold Weber, Caspar Weinberger, and Kenneth Dam. That evening small task forces were formed in each of three areas (wage and price freeze, international and surcharge, and fiscal and budget) to discuss possible plans for implementation of the package. Connally and Shultz would supervise this operation, but not participate directly. The groups were assigned as follows:

<i>Wage and Price Freeze</i>	<i>International</i>	<i>Fiscal and Budget</i>
Paul McCracken Arthur Burns Arnold Weber	Paul Volcker Peter Peterson Kenneth Dam	Herbert Stein Caspar Weinberger

They were given Friday evening and Saturday morning to develop plans for presentation to the President Saturday afternoon.

The wage and price freeze group organized with only a sparse knowledge of the task they had to perform. Only Weber, whom Shultz had asked to present a preliminary operational draft, had done any preparation for this task. Ironically, Shultz had indicated to Weber prior to coming to Camp David that Weber would be working on budget cuts, not on the wage-price freeze. Only as an afterthought did Weber include two copies of the last memorandum he had prepared for Shultz on the operation of a freeze. As a result, that piece of paper was the sole basis for discussion of the components of the freeze administration.

The group discussed the components it felt necessary for the administration of a freeze, isolating Presidential decisions from administrative decisions. Examples of Presidential decisions identified are, whether to include raw agricultural products in the freeze, the length of the freeze, the timing of the base period (for computation of allowable wages and prices), and plans for the period following the freeze.

Once this discussion ended, Michael Bradfield, Treasury Associate General Counsel and draftsman for the weekend, began revising his previous draft of the Executive Order on the freeze with the specific decisions made by the group with the President's consent. Connally made all final decisions on the implementation plans which again indicated his authority with the President on economic decisions.

The international group dealt primarily with the monetary package. The group never considered any plan for the implementation of a surcharge, in that implementation was straightforward. The lingering question was the legality, both under the Trade Expansion Act which was Michael Bradfield's original argument and under the GATT. Kenneth Dam was primarily responsible for reviewing the legality issue. After Michael Bradfield had finished his drafting of the Wage-Price Freeze Executive Order, he met with the surcharge group to rewrite his original proclamation for the surcharge. Later, Peter Peterson presented this package to the President for his approval.

Public Announcement

The President, on his return to Washington, Sunday afternoon, August 15, called a Cabinet meeting at the White House at 5:00 PM. This was the first announcement of the new policy to the Cabinet as a whole. The contents of the package were presented and a lively discussion of the consequences ensued. Each participant was asked to keep the secret until the public announcement scheduled for 9:00 PM, EDT that evening.

An hour before the scheduled televised speech, Secretary of State William Rogers advised first the Japanese and then the Canadians (the U.S.'s two leading trade partners) about the substance of the policy to be announced. Concurrently, Connally, Shultz, and McCracken held a news conference with the White House press corps for one hour preceding the message.

At 9:00 PM the President announced to a national television audience in an 18-minute address his new economic policy, the nature and scope of what Nixon called "the most comprehensive new economic policy to be undertaken by this nation in four decades." The President said the changes he proposed, coupled with improvements in the domestic economy during the first half of 1971 "will move us strongly toward a goal this nation has not reached since 1956—prosperity with full employment in peacetime."

Thus ended what was called by Herbert Stein the "biggest weekend for economic policy since Roosevelt closed the banks." Fifteen people participated and only about ten others in Washington knew what was happening at Camp David. It was not until Sunday night, August 15, that the nation and the rest of the world realized the importance of that weekend meeting and the significance for world economics.

3. POLICY ACTION AND IMPLEMENTATION

a. Import Surcharge

President Nixon, in his August 15 address to the nation, indicated a direct link between the changes in monetary policy and the implementation of the import surcharge. Although that link was recognized, it was apparent that much of the international reaction was against the surcharge rather than the monetary policy changes.

The new Economic Policy produced immediate reaction among foreign governments. Expectedly, it would lead to what Peter Flanigan referred to as "a change in habits"¹³ in the world's economic system. Nations that had once considered themselves as U.S. allies and trading partners now found themselves as competitors. Pierre-Paul Schweitzer,

Managing Director of the International Monetary Fund, said that disruptions in the exchange rates and the U.S. 10% import surcharge threatened the financial stability of smaller nations.

The administration of the surcharge was managed with little difficulty by the Treasury Enforcement Division under Eugene Rossides and the U.S. Customs Bureau, also part of the Treasury Department, under Myles Ambrose.

At the policy level, however, the issue of the surcharge was not a simple one. No early planning was done to determine the approach to be used for beginning negotiations and planning for its removal.

By the end of August, four views of the world were circulating with regard to the future of the surcharge:

1. Connally and various other protectionist-minded individuals began to consider the surcharge as a useful supplement to domestic policy and thought it should remain permanently. Connally thought, and rightly so, that it would serve to increase employment and help to insure some reversal in the trade balance.

2. A group largely represented by Peterson of CIEP and including Stein and the CEA, National Security Council staff (particularly chief economist Robert Hormats), and other outsiders believed that the surcharge could only serve a positive function as a temporary device. Its benefits had diminishing returns and it could not be indefinitely continued for fear of nations being further antagonized and possibly retaliating.

3. Scattered sentiment for the immediate removal of the surcharge was expressed, particularly from academicians, but they were soon convinced that the U.S. would not get any praise for now undoing its mistake (as perceived by them) and if we had to submit to world criticism, we might as well get something in return rather than eliminating the surcharge unilaterally.

4. Some members of the Treasury staff and Congress suggested the surcharge be used discriminatorily, particularly against Japan.

The time from August 15 through the end of October was used for extensive discussion and some planning but no real action was initiated. This period was described by many as one where emotionalism overcame reason and a significant amount of heated discussion occurred but no answers were forthcoming. The main forum for this discussion was an undersecretaries committee composed of John Petty, Treasury; Phillip Trezise, State; Nat Samuels, State; Robert Solomon, Federal Reserve; William Eberle, Special Trade Representative; Kenneth Dam, OMB.

By late October, world conditions had con-

¹³ *National Journal Reports*, November 13, 1971, p. 2247.

vinced more high level actors, particularly Peter Peterson and George Shultz, that some action had to be taken. Several countries had indicated that they might take retaliatory action. Denmark in mid-October imposed a 10% surcharge on imports. Argentina restricted its imports. Eberle cautioned that without the speedy removal of the surcharge there would be no international trade talks that year.

Peterson called several meetings in late October and early November to develop option papers leading toward the removal of the surcharge and setting new exchange rates. Key actors were Shultz, his close subordinate Dam, Hormats of the National Security Council, and the CIEP staff. This group considered two options: the first to remove the surcharge discriminatorily and the second to initiate bilateral negotiations.

Connally still supported a permanent surcharge and had been stalling talk of any negotiations. By the end of October his opposition was growing larger with key members such as Peterson, Shultz, and Kissinger ready for negotiations.

The annual meeting of the Group of Ten was scheduled in Rome for the end of November to discuss the international monetary scene. Just a few days prior to the starting of that meeting, the White House announced that progress had been made and the Administration admitted interest in restoring new order to the international monetary front. Volcker indicated that the major conciliatory move by the U.S. was "that the U.S. finally will be more specific about what currency and other policy changes it wants from other countries. The U.S. will be ready to talk in concrete terms. . . . The U.S. doesn't expect a settlement in Rome but it does hope to come much closer to mutually satisfactory interim arrangements that would restore a degree of stability and known rules to currency markets."¹⁴

Concurrently, the White House announced that a summit had been scheduled between French President Pompidou and President Nixon at the Azores on December 13 and 14, 1971. Although many topics were to be discussed, it was generally felt that the motivation for this summit was the international monetary question and the surcharge.

At the Azores summit, Kissinger took the lead in negotiating a settlement in exchange rates with the French President. The French were also assured that the end of the surcharge was near. This meeting and settlement were a clear indication that the dollar would be devalued with respect to other currencies and that the days of the surcharge were numbered.

The final act was the Smithsonian meeting of the

Group of Ten in late December where exchange rates were finally established, the dollar was formally devalued with respect to gold, and the elimination of the surcharge was promised.

b. DISC and Job Development Credit

Both the DISC and the Job Development Credit required Congressional approval. They were included with the President's other fiscal recommendations in the Tax Reform Act of 1971.

The route through the House Ways and Means Committee was largely paved by a close friendship between Wilbur Mills, Chairman, and John Connally. The Committee dispatched the bill with relative ease and made few changes to the President's plan.

As the bill moved to the Senate Finance Committee, the President's proposals met more resistance. Major differences were resolved rapidly by conference and Congress approved the legislation for the President's signature December 9, 1971.

The Administration's 1971 DISC proposal underwent two major changes in Congress. First, the 100% deferral originally requested by the Administration was reduced to 50%. Second, Congress added a proviso to discourage a DISC from investing tax deferred income in foreign production facilities. Neither of these changes was considered critical.

In response to the Administration's Job Development Credit proposal, Congress approved the plan to deny the credit to foreign goods. In addition, Congress gave the President an authority he had not requested to continue to deny the credit for foreign goods even after the import surcharge was terminated. The President never used this authority. The legislation's passage preceded the termination of the surcharge by 10 days and this discriminatory feature was never imposed.

c. Wage-Price Freeze

The Presidential initiative to establish the wage-price freeze reflected the President's resolve to vanquish inflation rather than an understanding of the technical dimensions of an economic stabilization program. The Executive Order was only an architect's plan, establishing the following guideposts:

- The standard for price and wage increases was set at zero.
- Coverage was comprehensive with the exception of raw agricultural products.
- The duration was set at 90 days maximum.
- Legal sanctions were available.

The President wanted to keep out of the day-to-day operations and negotiations for the freeze to minimize the political costs of the program to both

¹⁴ *Wall Street Journal*. November 26, 1971, p. 1.

his institutional and personal capacities. As a result, neither the President nor his staff interfered with the operations of the freeze administration. Flanigan did serve as a liaison with the White House by observing the Cost of Living Council meetings, but never was involved in policy decisions.

The Cost of Living Council (CLC) was given policy-making responsibilities by the President's Executive Order. The Council was designed as a Cabinet level group comprised of the Secretary of the Treasury (John Connally) as Chairman, the Chairman of the Council of Economic Advisers (Paul McCracken) as Vice Chairman, the Secretary of Labor (James D. Hodgson), the Secretary of Commerce (Maurice H. Stans), the Director of the Office of Emergency Preparedness (George A. Lincoln), the Director of the Office of Management and Budget (George P. Shultz), the Secretary of Agriculture (Clifford M. Hardin), the Secretary of Housing and Urban Development (George Romney), and the Special Assistant to the President for Consumer Affairs (Virginia H. Knauer). In addition, the Chairman of the Board of Governors of the Federal Reserve System was designated as an adviser to the Council. This designation was viewed as highly advantageous to the program and its administration, for the Chairman had been a vocal advocate of incomes policy, and his direct involvement in the program was likely to dampen Congressional criticism while adding his considerable skills as an economist to the process of policy formulation.

The Executive Policy Committee consisting of Paul McCracken, CEA Chairman; Arnold Weber, CLC Executive Director; Herbert Stein, CEA; George Lincoln, OEP; and Charles Walker, Treasury Undersecretary, met prior to each CLC meeting to discuss problems and plan an agenda for the CLC meeting.

The Council was given three functions under the executive order: (1) it had final authority for the formulation of specific policies governing the freeze; (2) it had ultimate responsibility for the effective administration of the program although specific functions were delegated to other agencies; and (3) it was called upon to develop recommendations for the President concerning the post-freeze stabilization program.

While the Cost of Living Council was concerned with policy, the Office of Emergency Preparedness (OEP), under the direction of George Lincoln, was chosen to carry out operational responsibility for the program. OEP was chosen for a number of reasons: (1) as part of its national emergency functions, OEP was responsible for developing economic stabilization plans; (2) OEP also had the capacity to act quickly and to mobilize the resources of other government agencies, which came from

considerable experience in dealing with natural disasters; (3) OEP also maintained an updated roster of personnel in other government agencies who could be assigned immediately to duties in a stabilization program; and (4) OEP had a national field structure in all parts of the country. An important part of this national field structure was a sophisticated, computer assisted communications network which could be used to disseminate policies and regulations to the field and to provide rapid feedback to Washington.

The first two meetings of the CLC were nonproductive. The initial determinations of the Council of the policy area were sporadic and poorly prepared because of staff limitations and the general confusion associated with the early stages of the program. The internal process reflected the public relations requirements of the program. The Council resorted to a question-answer format for its first few policy determinations. Each issue would be reworded in the form of a question; Secretary Connally as Chairman would read the question to the Council, he would recommend an answer (usually yes or no), and then ask the Council if there was any disagreement. It was a highly unique situation to see most of the Cabinet in a meeting discussing the most operational details of the freeze, but all came, and public credibility of the program was enhanced by their interest.

By the end of the first week, this policy process was somewhat rationalized. The method chosen was basically inductive: policy issues were filtered up through the OEP hierarchy and presented to the Executive Policy Committee staff of the CLC. The staff then prepared option papers on each issue, basically in the mode of OMB policy memoranda explaining the issue, the options, the pros and cons, and a recommended action. These option papers were discussed at the Executive Policy Committee meetings and then forwarded to the Council for decision. This process presented options to the CLC in an analytical and decision form and greatly facilitated their work. The CLC staff was key in this process, particularly Earl Rhode (OMB) and Louis Neeb (OEP).

Despite the Executive Policy Committee's important role in policy formulation, the Cost of Living Council remained an active forum for discussion and decision-making throughout the freeze. The Council operated through consensus rather than formal votes. On a few occasions, differences in points of view were so entrenched that formal votes were taken. There were, however, persistent differences in approach which characterized the operation of the Council. Significant divergence existed between those members who represented departments with explicit constituencies and those who headed central agencies of government with

broadier responsibilities. Regardless, special interests were seldom accommodated. Any individual Council member espousing a view that would favor his constituents was likely to be neutralized by a Council member seeking to protect a constituency with conflicting interests. Public interest and pressure were so significant that every Cabinet member felt duty bound to attend all meetings, fight for policies aiding his constituents and against those of other constituent agencies.

d. Phase II Policy Planning

While the CLC was busily developing policies for the wage-price freeze, an under-secretary group was developing options for the period following the 90-day freeze.

Called the Stein Group, it was comprised of James T. Lynn (Undersecretary of Commerce), Lawrence Silberman (Undersecretary of Labor), Charles Partee (Federal Reserve Board), and Donald Paarlberg (Department of Agriculture). Two individuals not specifically members but who invited themselves were Peter Flanigan (White House staff) and Arnold Weber (Executive Director of the Cost of Living Council.)

Throughout this period, various agencies and the White House held over 600 meetings with interest groups between August 15 and early October. These meetings accentuated the popularity of the freeze and the desire for continued controls. Public opinion polls showed that over half those surveyed strongly favored the continuation of the freeze, of course more favorably on the price side than the wage side. The U.S. Chamber of Commerce had originally voiced disagreement with the freeze policy but changed its mind when its members voted an overwhelming approval to the conduct of the freeze. Labor was not too supportive of the wage side of the package, but was pleased with price controls.

The previously hostile Congressional Democrats had been left speechless by Nixon's final use of the policy they had advocated for a long time. Their best criticism was a claim that the President would never have done anything without their prodding, but they never criticized the use of controls. Nixon was again looking toward the 1972 election, and now he could not afford the chance of taking off controls.

No one at the Camp David meeting had anticipated a controls program of longer than one year at most and had assumed that a voluntary program of restraints would be used as a transition from a freeze back to free markets. No one, however, predicted the popularity of the freeze which forced the President to finally agree to a program of mandatory and comprehensive controls.

The President announced his Phase II plan on October 7, 1971, leaving only one month to staff new committees and agencies and develop detailed regulations. With such limited time it was not surprising that one CLC official described the new arrangements as "organizational anarchy."

II. ASSESSMENT OF THE PROCESS

The following section specifies the degree to which the various elements of the process used for policy development and implementation of the New Economic Policy were actually attained. For this part, the processes for the various components of the package will be considered together and compared or contrasted where appropriate.

A. Was A Reasoned Conception Of U.S. Objectives Present?

Throughout this process the conflicting objectives of full employment, price stability, and a favorable trade balance were constantly articulated by the actors. Although these domestic economic objectives were predominant, considerable attention in the final selection of the package was given to the President's reelection in 1972 and John Connally's dominance as the chief economic adviser of the President. Although international political objectives had been expressed by the President (for example, his upcoming summits in Peking and Moscow), no long-range international economic objectives were ever clearly stated.

B. Was The Best Obtainable Information Relevant To The Decision Made Available?

Economic information and forecasts, both on the domestic and international front, were easily available for the President's or his advisers' consideration; however, the CEA forecasts were often viewed as being too optimistic. Throughout this process, actors also had sufficient data on the reactions of foreign countries to our existing policies, but this information was not considered in the final policy decision.

C. Were The Implications Flowing From That Information Effectively Canvassed?

Implications of the economic data and forecasts were well considered for both domestic and international decisions. A greater weakness was the inability of decision makers to realize the implications of the international economic actions they were about to take on the international trade system, international monetary system, and international political situation in general. Those who did consider these implications were excluded from the final decision process. As the President was later convinced, the inability to negotiate on the monetary question in the fall of 1971 would have later repercussions on his talks in Peking and Moscow where he could probably no longer present a unified Western front.

D. Was A Full Range Of Realistic Alternatives Presented For Consideration?

Through the early months of 1971, when the policy of gradualism was apparently failing in its mission, every possible alternative was presented by various interest groups, Congress, and actors within the Administration. The President, however, for a long time refused to consider them. There is evidence that eventually most of the alternatives were considered, primarily because so many of them appeared in the final proposal.

E. Was A Full Range Of Relevant Considerations Applied?

The overwhelming difficulty in the planning process leading up to the wage-price freeze was insufficient contingency planning or time to do any planning once the decision was made. Some planning was done by Murray Weidenbaum of the Treasury Department in 1970-71, but Weidenbaum left in August 1971 and none of his planning ever reached the hands of the decision makers or implementers.

The most serious consequence of this lack of planning was realized during the implementation of the freeze. This was reflected in the inability of the Cost of Living Council to see the implications of any decision it made. Often a decision was made on a very specific issue brought to the Council which had later implications for a vast area of policy which was not apparent at the time. The result was often conflicting judgments and changes in rulings which damaged the credibility of the program.

Nowhere in the wage-price program policy development process, particularly in the CLC, was any consideration given to the international impact of the program, particularly regarding imports and exports and how the controls program should apply to them.

The 90-day period allowed for Phase II policy decisions was an insufficient period of time to plan for a full scale controls program. However, no one earlier had anticipated the need for a full fledged controls program. This showed inability on the part of decision makers to see the implications of the decision to initiate the freeze, particularly in regards to misjudgment of public opinion.

F. Were All Appropriate Participants Consulted?

The decision was made by an individual, President Nixon, only based on the constant consultation of John Connally and, to a lesser extent, George Shultz. Others, such as Paul McCracken, had limited input, but had no role in the final decision. At Camp David the President gave many of his advisers an opportunity to comment on the proposal and any substantial dissension was considered, such as when Arthur Burns sharply opposed the closing of the gold window. However, many important actors were missing from Camp David, including representatives from the Departments of State, Commerce, and Labor. Henry Kissinger's absence was also conspicuous. Although in Paris at the time, it was possible for him to have returned, had he deemed it important.

G. Was The Decision Taken At The Lowest Level Capable Of Making It Effectively?

The decision was clearly a Presidential decision because of the scope and breadth of the entire package presented. It could not have been effectively made at a lower level, but could have been made with more consultation. In reality, the New Economic Policy decisions were made below the White House level at the Treasury Department. This resulted in a narrower view of the possible objectives, alternatives, and criteria involved.

H. Was The Decision Communicated To Those Responsible And Effectuated In Timely, Clear Fashion?

The decision was communicated swiftly and decisively to the actors who would be responsible for its implementation. Most of the contingency plans, at least in a rough form, were already developed at Camp David. By the time the actors left Camp David, Connally had made clear assignment for such responsibilities to the appropriate agency or individual.

Unlike Phase I, the process in Phase II did not facilitate the efficient communication of information and policy decisions. By this time, CLC did not hold the prestige it had at the beginning of the freeze. The issues became too complex and Cabinet members were sending their deputies and assistants rather than coming to meetings themselves. The existence of the Price Commission and the Pay Board also contributed to the greater difficulty in management of the process in this phase. Although the Cost of Living Council staff was responsible for coordinating these three bodies, the authority was more clear when there was just one policy making agency, rather than three. The field operation had become much more complex with the addition of more agencies and more problems. Many of the field people would read about new regulations in the newspaper before they would get the message through their own organizational channels.

Severe time constraints for Phase II planning had left insufficient time for adequate staffing of the Pay Board and Price Commission. Staff turnover was high, adding to the complexity of the coordination problem.

I. Were The Actions Of Those Responsible Monitored To Insure Compliance With The Decision?

Throughout the process, actions were closely monitored and results were regularly assessed to try to identify whether objectives were being met. The nature of the freeze helped in this process because the objective was so clear: no increases in wages, prices, and rents. The economy in general was monitored to insure the achievement of policy objectives, but the effect of particular parts of the policy package was not monitored.

J. Were The Results Of The Decision Noted And Assessed?

The Council of Economic Advisers, due to its responsibility to report to Congress regarding the state of the economy, carefully described the results in later *Economic Reports of the President*.

K. Were Resources Committed To The Decision Or Action Commensurate With The Task?

One of the strengths of the wage-price process was the high level of interest and resources devoted to the Cost of Living Council. All participants at the time claimed that the CLC was one of the few Cabinet level committees that ever actually functioned efficiently and effectively. The Cabinet members maintained a surprising level of interest; during the first few weeks of the program the CLC met daily and Cabinet members rarely missed meetings. This high level attention and enthusiasm was reflected in a higher level of public confidence in the program.

L. Was The Decision Process As Open And Public As Was Consistent With Its Nature?

The decision process was most secretive. Only the individuals at Camp David (15 in all) knew the content of the President's specific proposal before he delivered his address to the nation on Sunday night, August 15, 1971. Perhaps 10 individuals in Washington knew what was happening at Camp David at the time. By the nature of the decision, it could not be made much more public than that. It was imperative that both the international monetary decisions and the decision to institute a wage-price freeze be effective the minute they are made public for fear of either panic in the exchange markets or anticipatory wage and price increases.

M. Were The Decisions And Actions Taken Broadly Consistent With The Public's Sense Of U.S. Interests?

All of the decisions, except possibly the international monetary issues, were clearly consistent with the public's sense of U.S. interests as expressed in public opinion polls and Congressional response in the weeks following the decision. The nation was clearly in the mood both for a package that took a

hard line on foreign countries and one that contained inflation and cut taxes. There was no doubt that this was a popular decision with the public, Congress, and interest groups in general.

III. ASSESSMENT OF OUTCOME

A. United States Foreign Policy Implications

President Nixon's adoption of the New Economic Policy in August 1971 encouraged an isolationist trend which raised questions about the future of U.S. foreign policy just as striking as those raised by the President's nonisolationist trend toward negotiations with the Chinese and the Soviet Union. The New Economic Policy, coupled with the President's planned visits to Moscow and Peking, led to a perplexing policy of retaliation against our traditional Western allies while granting concessions to traditional adversaries.

The President's international objectives for the policy can be summarized as follows:

- reconciliation of the world economic role of the United States with the growth to power of Europe and Japan
- fundamental reform of the international monetary system
- revaluation of the Japanese yen
- return to a balance of payments surplus
- strengthening of the U.S. economy as a means for raising international confidence in the dollar
- exportation of U.S. unemployment
- cooling of Congressional fervor for protectionist trade legislation

The President's policy suffered from the American tradition of waiting too long to act, then lunging unpredictably from one extreme to the other, instead of proceeding deliberately to a new equilibrium.

Although this harsh criticism can be used to describe the means by which policy makers sought to achieve the U.S. objectives, in terms of end result, the policy was a success. Such dramatic action was a clear indication that the U.S. was no longer content to play the dominant role in the world economy. Although inflicting temporary damage on the international monetary system, these sweeping changes focussed attention on the need for monetary reform, which was later forthcoming.

The by-products of using such drastic means to achieve U.S. foreign policy objectives are only now being assessed and the picture will probably not be

clear for years. Probably the most significant casualty of this policy was U.S. political relations with its Western allies and Japan. The U.S. action caused substantial short-term deterioration in monetary and trade relations, and trade relations have not yet recovered from this shock. The international economic credibility of the U.S. was also at an all time low and was heightened by subsequent acts such as export controls in the summer of 1973.

U.S. policy makers were guilty of either *underestimating* foreign reaction to their plans or not considering that reaction an important component of policy development. For example, unilateral efforts by the U.S. to solve domestic unemployment problems at the expense of other nations was a gamble against retaliation from nations unwilling to let that happen. Not only was such a policy likely to fail, but it could have fostered inefficiency and monopoly and worsened the domestic inflationary picture.

Observers also questioned whether Congressional pressure for protectionist trade legislation at that time was just a trial balloon rather than a serious effort. The domestic political impact of the President's decision was, again, to centralize decision making authority regarding trade in his office, rather than in Congress where it rightfully belonged. Interestingly, in 1974 a New York district court declared the surcharge illegal because it exceeded Presidential authority.

The following sections will assess the outcome of the individual components of the policy in terms of meeting U.S. foreign economic policy objectives.

B. Import Surcharge

Not only was the surcharge considered a bad substitute for an exchange rate realignment, it was also unfair, putting a heavy burden on countries which traded most with the United States and applying to less developed countries, even though the U.S. had no desire for a change in either their currency or trade policies.

Combined with a floating exchange rate, the surcharge became contradictory as it did not let the dollar depreciate fully, offsetting the effect of the floating rate.

On the other hand, even those who were disturbed about adverse foreign reaction to the surcharge, later admitted that it was an effective bargaining tool, particularly with the Japanese, toward a substantial exchange rate realignment. In fact, most believe that, at least with the Japanese, no such change could have come about without the leverage of the surcharge's removal. Although this group will admit to the success of the surcharge as a bargaining tool, many question the price paid in

terms of the potentially adverse long-run effect on the world trade system and the potential for trade reform.

C. DISC

The proposal to institute the DISC to improve the U.S. exports position was also not well received abroad. Most foreign governments accused the U.S. of violating the GATT agreement. The Treasury Department was little concerned with this accusation as most European nations used a Value Added Tax, similar in nature to the DISC. The DISC proposal hurt the Canadians the most, resulting in a rise in Canadian unemployment because many U.S. companies no longer built plants in Canada as a result.

The DISC, like the surcharge, was also contradictory in the world of floating exchange rates existing in the fall of 1971, and in that respect was not an economically justifiable tool.

In addition to these external responses, the DISC had not been shown, in just the two years of its existence, to have any effect on the U.S. exports position. Its only seeming effect has been to bestow large windfalls on small manufacturers who previously could not benefit from such tax advantages.

D. Job Development Credit

In actuality, the Job Development Credit which discriminated against foreign countries, had little effect, because it only lasted approximately 10 days between its passage by Congress until the removal of the surcharge. Its effect was both in foreign reaction and anticipatory orders by U.S. firms. As a part of the total protectionist package, it was uniformly condemned by foreign manufacturers. Not only were they subjected to the 10% import surcharge, but they were also faced with the 10% Job Development Credit available to U.S. firms using only domestically manufactured machinery and equipment.

E. Wage-Price Stabilization

Although the wage-price freeze largely resulted from John Connally's domestic political objectives, a classical justification existed for the freeze. Measures taken to improve the U.S. balance of payments (e.g. import surcharge) would also relieve the competitive pressures on American producers; hence, controls (e.g. wage-price freeze) would protect against this added element of market insulation,

particularly on the price side. In this respect, the controls program and the subsequent devaluation appeared to promote a rare confluence of economic expansion, relatively stable prices, and an improving balance of payments, for at least the first year following the policy change.

The political impact abroad was also favorable. The Europeans had voiced growing concern that the U.S. was exporting its inflation to them. The tough stand taken by the U.S. on its domestic economy was the news Europe needed, and the U.S. use of an incomes policy, a well-accepted European economic tool, reinforced this confidence.

With such a positive impact, some speculate that the strong domestic package of August, 1971 alone, would have created sufficient confidence in the dollar to improve the U.S. competitive position abroad and eliminate the heavy speculation on the dollar. Such a policy, coupled with a suspension of gold convertibility and possibly unilateral negotiations with the Japanese regarding exchange rates, might have been a sufficient policy to achieve U.S. objectives without creating undue stress on the international political climate.

After a year of success, however, conditions in the U.S. economy began to change. Critical shortages began to appear, particularly of certain farm commodities. This led to the *ex post* realization that the controls program had totally neglected consideration of the effects that the international economy and, particularly, exports would have on our level of supply.

The Phase III program, begun in December, 1972, contained the same guidelines as Phase II, but enforcement was almost entirely curtailed. Combined with significant cost-push inflationary pressures, commodity shortages, and waning public confidence, this new policy led to a significant increase in the level of inflation.

The psychological effect of the U.S. change in policy was significant abroad. This further eroded world confidence in the value of the dollar and may have been an instrumental cause in a second dollar devaluation in February 1973.

IV. ASSESSMENT OF PARTICIPATING ORGANIZATIONS

A. The President And The White House Staff

The major feature of the White House structure which hampered decision-making was its closed nature and the enormous cloud of staff members sur-

rounding access to the President. Most key decision-makers never knew how many of their recommendations even reached the President's desk, or in what fashion they arrived there. No staff assistant close to the President could be considered a "neutral traffic cop", the function Joseph Califano had served in the Johnson Administration. Only through close individual access to the President, as John Connally had, could an Administration official insure that the President himself considered his recommendations.

B. The Treasury Department

A key to John Connally's success was his presentation of a comprehensive plan and strategy to a President who was quoted as not wanting to make a policy change unless it was dramatic and on a large scale. Connally's ability to present such a package resulted from the extensive organizational and policy resources at his disposal at the Treasury Department. Under his direction, all facets of the New Economic Policy were considered and debated. Paul Volcker played a key pivotal role in coordinating policy from both the international and domestic front, viewing the interrelationships and developing a package on that basis. Although Connally often disagreed with Volcker's objectives for such a policy (Volcker had an academic international orientation rather than a domestic political one), Connally agreed with the elements of the package. Connally had only to present this package to the President and persist in convincing him to accept it, which he accomplished.

Connally's entrance lifted the morale and self-esteem of the entire Treasury Department. Not being an economist, Connally depended heavily on his staff in developing options. He was fortunate enough to inherit what many considered the best departmental staff in Washington. Following in Connally's lead, his staff tended to dominate various interagency committees, happy to end the frustrating era when George Shultz and Paul McCracken totally dominated the economic scene.

C. Council of Economic Advisers

McCracken and his staff should have been involved from the beginning in developing contingency plans for a possible wage-price freeze, because they were the best equipped to do such analysis. The CEA's inactivity in this area stemmed partially from the Council's disinterest in the subject of incomes policy, although McCracken softened as the President's decision to institute a wage-price freeze became more assured. As McCracken

had not been involved in the intimate policy development, he was informed very late in the process what the decision had been, leaving insufficient time to do the analysis necessary for effective program planning.

Senator William Proxmire, Chairman of the Congressional Joint Economic Committee, was vitally concerned about the eclipse of the CEA. Under the Employment Act of 1946, the Joint Economic Committee (JEC) and the CEA were both created and assigned a special relationship. Specifically, the CEA Chairman was the only one required by law to testify before the JEC prior to preparation of their reports. If the CEA was no longer the source of policy-making information, Proxmire was concerned about getting the correct information. To heighten his concern, neither John Connally nor George Shultz testified before the committee in its July 1971 hearings.

D. Office Of Management And Budget

Like McCracken, Shultz did not have adequate resources to get deeply involved in comprehensive economic policy development. Arthur Laffer played a role that paralleled CEA forecasters and caused some conflict in the development of a unified Troika projection of GNP in 1971. Kenneth Dam served as Shultz' international economic expert. Shultz was beginning to develop a staff capacity comparable, although on a much smaller scale, to that of the Treasury Department, but his staff was not largely involved in the events of the summer of 1971.

Although Shultz participated in many of the later Connally discussions with the President, it was clear that he was not a major factor, particularly in that he still philosophically opposed the use of a wage-price freeze. Probably the key to the later success of Phase I was the fact that the President asked Shultz to do some preliminary operational planning for the freeze. Shultz' involvement of Arnold Weber, chief of the management function of OMB, brought the top management talent of that part of OMB. Such talent could not be duplicated elsewhere in the government, particularly in the Treasury Department.

The selection of Weber as Executive Director of the CLC brought in the resources of his OMB staff, particularly the Office of Program Coordination, under William Kohlberg. The function of this office was to provide leadership for major Presidential decisions that involved interagency coordination. Although almost any major Presidential decision was of this nature, the office had no clearer case than the wage-price freeze.

Kohlberg's key decision was to assign one OMB

management staff person to each OEP regional headquarters. These individuals used the clout of OMB and the President's Executive Office to obtain staff, office space, supplies, and telephone service. These seemingly trivial functions were necessary and difficult to obtain with any speed relying on the Civil Service Commission and the General Services Administration.

E. State Department

The State Department was almost totally excluded from the New Economic Policy decisions in the summer of 1971. Secretary Rogers was not consulted when the President made his preliminary decisions and no representative from the Department was invited to the Camp David meeting. A number of factors help to explain this overall impotence.

The Department did not have effective leadership from either the Secretary or the Deputy Undersecretary for Economic Policy. Although Secretary Rogers was a personal friend of the President's and was known to have access to the Oval Office, either he was ineffective in this area, or he was not sufficiently interested in economic policy to take a concrete stand.

At the time, the State Department had neither an adequate staff nor sufficient expertise to play a dominant role in this area.

Politically, the State Department was in an inherently weak position, having no ties with any domestic constituency. John Connally used this point to exclude State whenever possible. Although State was weak, it still retained the highest position of all agencies in the federal government hierarchy and protocol. For example, the Secretary of State preceded the Secretary of Treasury in the Presidential succession line-up. At that time, Connally was a rising star and might not have wanted any potential competition for his role in the limelight.

F. National Security Council

Although Fred Bergsten, and later, Robert Hormats of the NSC economic staff had been interested in the international monetary question, Henry Kissinger, then director, was not interested and felt he had more important issues on which to spend his time. Evidence of this disinterest was the fact that he did not return from Paris for the Camp David meeting, one of the most important meetings in decades for the U.S. position in the world economy, although Kissinger apparently did not realize its importance then. The NSC became involved in international economic policy when Kissinger sud-

denly took interest in the issue in November 1971, seeing the possible implications of the import surcharge abroad. His participation was key in the final negotiations, particularly with French President Pompidou at the Azores meeting in December.

G. Council On International Economic Policy (CIEP)

The Council had been organized in January 1971 to fill the perceived vacuum in White House interest in international economic policy. Peter Peterson, its first director, was not knowledgeable in international monetary policy and channeled his organization into trade affairs, largely because of the impotence of the Special Trade Representative.

Through the summer of 1971, CIEP was still in its beginning stage and Peterson was not having an impact on the high levels of policy within the Administration. He did not have Presidential access, and although he may have had the right structure and purpose, without access to the President he had no effect.

Peterson became more critically involved in the monetary negotiations in the fall of 1971. In a coalition with George Shultz and Henry Kissinger, his role was instrumental in circumventing Connally's stalling of international negotiations by presenting the case for the surcharge's early removal to the President.

H. Other Domestic Agencies

During the summer of 1971, involvement from other agencies in economic policy was negligible. Commerce and Labor, who had a significant stake in any wage-price controls proposal, had ineffective leadership and were eclipsed by Connally and the Treasury Department. Many departments later increased their credibility through active participation on the Cost of Living Council, an organization that was not Connally's top priority and, as a result, one he did not dominate.

I. Cost of Living Council

The CLC was one of the first Cabinet-level inter-agency groups the Administration used that actually functioned, and it did so in an exemplary manner. For the first time the theory of competing constituency agencies working together to come to a consensus really worked. This success was due largely to the following factors: 1) the decisions to be made were not too complex, 2) the program had President Nixon's endorsement as his highest pri-

ority program, and 3) the public and various interest groups were constantly besieging these agencies with their requests and complaints so the agencies had to discuss these issues at meetings for the sake of their own credibility. The Council successfully isolated the President from the day-to-day operational decisions, much to his pleasure. In addition, the presence of such prominent individuals as Cabinet members making the detailed decisions for Phase I gave the program significant stature to the public at large.

During the planning and operational stages of Phase II, the Council no longer functioned as successfully as in Phase I. No longer were the issues simple and the problems with a more detailed controls system were beyond the comprehension and/or interest of most Cabinet members. The program also lacked the public notoriety it had in the early days. This disinterest of the Cabinet and consequent lowering of stature of the CLC was an inevitable result and had no adverse effect on the program. In fact, observers questioned the use of such high level time in initial operations of the freeze, except for a favorable public relations impact.

Although the Council represented almost every domestic agency, it did not include a representative from the State Department. Although the reason is unknown, participants have speculated that it was a combination of State's disinterest coupled with John Connally's view that State's viewpoint was unimportant in the development of a domestic economic program. Problems in 1973 with the increasing level of exports and commodity shortages led the Council to conclude that the one aspect they failed to consider was the international effect of the U.S. economic stabilization program.

J. Congress

Looking ahead to the 1972 Presidential election, the Congressional Democrats began to lean on the economic issues as their ticket to the White House. The passage of the Economic Stabilization Act was viewed by many as a trial balloon to force the President to take action on the economic front and to later blame him if the policy went wrong. Their plan backfired. As a political strategy, the President's institution of controls left the Congress speechless and without recourse. With the program's success, the President received the credit; if the program had failed, the President could have blamed Congress for forcing his hand.

V. THE PROBABLE PERFORMANCE OF ALTERNATIVE STRUCTURES

In order to speculate on the potential success or failure of alternative organizational structures, the following four alternative organizational arrangements will be analyzed with respect to the New Economic Policy decision. Briefly, these models can be identified as 1) Strong White House, 2) Strong State Department, 3) Decentralized, and 4) Two-tiered.

A. Model 1—Strong White House

In a positive light, such a model could have reduced Treasury Secretary John Connally's dominance of the policy-making process. In the actual process, only at the Treasury Department could conflicting objectives be considered and they largely were not. More White House dominance could have neutralized the effect of either a strong State Department or a strong Treasury Department, the two agencies with key and conflicting roles in foreign economic policy. Such a structure within the White House might have facilitated the President's earlier recognition of the international monetary crisis and might have forced some policy change sooner than was actually realized.

To be effective, the key White House individual must be a strong high-level official with adequate staff to perform independent analysis and considerable economic training and experience. This economic orientation is important to avoid the lack of concern that was shown by Henry Kissinger for foreign economic policy during his tenure as Director of the National Security Council and chief White House foreign policy adviser.

The implementation operations of OMB during the wage-price freeze highlighted the need for some Executive Office staff personnel tied to any new program needing both new personnel and supplies in a short time period.

In order to insure sufficient Congressional involvement and accountability, any chief White House adviser for International Economic Policy should be confirmed by the Senate and be allowed to testify before either Congressional body as requested.

The New Economic Policy, by nature, had to be developed in a closed and secretive process. By centralization in the White House, contingency planning prior to announcement of policy is facilitated with less fear of leakage prior to public announcement.

B. Model 2—Strong State Department

Had this model been implemented, the State Department would have been less likely to be impotent in the policy decision on the New Economic Policy and possibly could have tempered the harsh protectionist stance. With the focus in the Department of State, post August 15 policy development would have moved at a much faster rate and negotiations would have probably begun much earlier due to substantially greater coordination with responsibility for implementation and policy development located in a single agency. Congress could request the direct testimony of the Secretary of State who would be responsible for all policy decisions. The Secretary would also be subject to confirmation by the Senate as a normal procedure.

Regarding the weakness of the model, the impotence of the State Department in the 1971 economic decisions serves as an indication of the inability of the department to focus sufficient expertise and interest in the economic policy area. The current structure and operations would have to be substantially modified before the Department could perform a useful role in this area.

State Department control would present many of the same problems, only on the opposite level, that John Connally and the Treasury Department's dominance caused in the 1971 decision. It is difficult to speculate what different alternatives would have surfaced under State Department control, but they would probably not be representative of the various interests which were involved in this decision.

Access to the President is largely dependent on personality, and it is doubtful, even with a strong State Department mandate in this area, that Secretary Rogers could have overcome the personal dominance of Connally to have sufficient access to the White House. If Connally was Secretary of State, this model might have dominated rather than the Treasury Department model.

C. Model 3—Decentralized

For a decentralized system to operate, department heads would have to be on an equal basis both formally and informally. This type of system, given the actors of 1971, would have provided the same result as was seen, particularly with the Treasury Department dominating the decision-making process. The process would not necessarily be more open, as witnessed in 1971. (In this case, however, the dominance of the Treasury Department, was not as important in the lack of involvement of

the other Departments as was their own inability or disinterest.) Under such a system, the Congress and interest groups do have significantly more access to the decision-maker than under a White House system with an inaccessible decision-maker.

The President would have more power under this system, but would not always have the time to sufficiently weigh the competing objectives of every policy on his own, or might be unwilling to do so, as President Nixon appeared to be.

All the weaknesses of this model were present in the 1971 decision, as previously discussed. In theory the model appears sound, but in reality it is almost impossible to staff the Cabinet level jobs with equally dominant and aggressive individuals so that their authority can be diffused, nor can a President be expected not to seek specific individuals' advice on any policy question. An ideal structure would have the President's most trusted advisers assume positions that would naturally focus on the various competing objectives of any policy.

D. Model 4—Two-tiered

The potential success of this model would depend on the strength of the Secretary of State, and his policy interests. If this individual were Henry Kissinger, it is doubtful that more economic considerations would have entered the decision process. The capability of staff, however, coupled with its access to better information, would have had a significant effect on the improvement of the process. But this still depends on the cooperation of the individual agencies, the competence of various staff members, their influence with the Secretary of State, and the Secretary's personality.

Access to the President, again, clearly depends on the relationship the Secretary maintains with the President. A William Rogers could have been no more successful in this model than in the strong State Department model.

Domestic political considerations would only be of secondary interest, depending on the priorities of the particular Secretary of State.

The coordination problem would not be any more significant than under the strong White House model or the decentralized model.

The operations of the implementation-oriented State Department could be a serious concern. In this case, the role of the agency would be formally down-graded, and this may have a substantial impact on the quality of staff the department could attract and the quality of work of staff members already there. The lack of a clear promotional path to policy level responsibilities would severely hamper this operation.

E. Recommendation

Potentially, the most effective structure appears to be the strong White House structure with the back-up of a strong economic contingent in the State Department. The White House should be the location for a key director of international economic policy with a structure similar to the Council on International Economic Policy (CIEP) supporting him or her. Such an individual must have close personal access to the President and be confirmed by the Congress with accountability obligations. This individual should serve the function of bringing together the interests primarily of the Treasury and State Departments, the chief economic agency and the chief foreign policy agency. This White House director should have significant academic training and experience in all facets of foreign economic policy and have sufficient Presidential authority to supersede the interests of Cabinet officials. A small staff structure is necessary for sufficient analysis to be prepared, but the director should rely primarily on the operating agencies for analysis and staff contingency planning.

The CIEP lacked many of these characteristics and showed that without them, even a structure so

highly placed in the White House could fail. CIEP never had clear input into many aspects of foreign economic policy, due to its concentration on trade. This emphasis raised a conflict with the Special Trade Representative, who had been specifically designated the trade role. Peter Peterson did not have the Presidential access necessary for impact, and was superseded first by John Connally and later by George Shultz in his role as coordinator.

Also key to the success of this model is the reorganization of the Department of State to more clearly emphasize an economic interest. First, the Secretary needs a clear interest in economic policy or he must clearly delegate substantial authority for that area to a subordinate, which has not happened under the Nixon Administration. Further, economic bureaus must either be centralized or given a co-equal stature with the political bureaus, to give the staff some feeling of significance. Currently, service in an overseas economic bureau is considered time-out from the career path for the foreign service. No ambassadors or key staff people have ever been appointed from the ranks of the economic bureaus. The interest and incentives of the Department must be altered before it can expect to play a significant role in foreign economic policy.

The "No-Tax Decision" Of 1966

Matthew J. Golden
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INTRODUCTION

This case study examines a sequence of events well outside the traditional boundaries of foreign economic policy: President Johnson's decision in 1966 to overrule his chief economic advisers and submit no proposal to the Congress which would increase, or impose a surcharge upon, the federal income tax rate. Few observers would dispute that this choice probably did more to shape both the context and the substance of American foreign economic policy in the ensuing five years than any other single action. Economists of all schools seem united in the view that the worldwide inflation which began in the late 60s, and which is the root of many of the problems the world economy now faces, had its principal genesis in the fact that the federal budget of the United States staggered through the latter 60s burdened by the wake of almost 200 new domestic programs launched at the same time that the country was financing a rapidly escalating war in Asia. The stagger was caused primarily by the unwillingness or inability of the federal government to increase revenues. Consequently, the unending string of federal budget deficits—well above even a full employment concept of deficit measurement—became the principal culprit in the severe overheating of the economy, expressed in strong demand-pull inflation, which characterized the years after 1966.

It is important to note at the outset that, from beginning to end, this decision was perceived within the United States government as a matter of almost entirely domestic concern. As is traditional with tax policy in a continental economy which has little experience with large-scale dependence upon foreign trade, the question of the "right" level of federal taxes was perceived as peculiarly unsuited for treatment as a foreign policy issue which might engage the principal foreign policy agencies. That fact should not, however, disqualify the decision from consideration in this series of studies. On the

contrary, a thorough-going inquiry into the making of "foreign" economic policy must include some attention to those choices which seem to generate the context for all later decisions.

To this end, the study (1) provides a brief overview of the economic and political environment that conditioned the process; (2) examines the organizations and key individuals involved; (3) describes the decision process itself; (4) assesses the domestic and international economic impact; (5) critiques the organizations which participated; and (6) examines how a different organizational structure might have produced a different result.

THE DECISION ENVIRONMENT

Economic Factors

After a period of prosperity and price stability of unprecedented length, the decision period (fall of 1965 to spring 1966) was dominated by the dramatic expansion of an economy responding to the legacy of optimism created by long standing prosperity as well as the twin stimuli in the federal budget which are noted above. The stage had been set by earlier measures which reflected the generally expansionary policy of the Administration—the general income tax cut of 1964 and enactment of a generous investment tax credit. As the military budget grew and the Great Society legislation portended an explosion in the domestic side of the federal budget, the general expectation of private sector prosperity produced a bulge in consumer spending and corporate investment which stimulated a classic demand-pull inflation. The principal indicators at the beginning of the decision period told the story:

—Wholesale prices were rising appreciably in the fall of 1965 for the first time in seven years.

The Wholesale Price Index (WPI) showed a 3% increase for the first nine months of 1965.

—The Consumer Price Index (CPI) was rising at an annual rate of 3.4% between June 1965 and September 1966, a rate approximately double the average of the previous four years.

—Unemployment hovered at or below 4%, the level which had been generally conceded to represent “healthy” full employment—i.e., the lowest level of unemployment at which it was believed possible to maintain reasonable price stability.

—Wage demands in key industries (copper, aluminum, steel) exceeded the Administration’s “guideposts” (based upon the historical average annual improvement in productivity) and proved largely immune to pressure despite repeated Presidential “jawboning.”

Of course, in these early stages, it was impossible to argue that the federal budget was the major cause of current inflationary pressure. Most of the expenditures which would result from policy decisions in Vietnam and in the domestic economy during the year 1965 did not become major factors until the following years. Nevertheless the rush of domestic legislation which poured through the Congress in 1965 and the promise of even more in 1966 suggested, even taken alone, that inflationary pressure would build if taxes were not increased. Moreover, despite continuing Administration claims (and, presumably, hopes) that the financial burden of the Vietnam war would be insubstantial and of limited duration, it had become clear with the first large deployment of U.S. troops that the additional budget costs of the Vietnam conflict would not be trivial. (In fact, of course, they mounted to a net additional burden approaching \$25 billion per year for the following three years, tapering off to a smaller but still substantial sum in the early 1970s.) Therefore, proponents of a general tax increase argued that the handwriting was clearly on the wall, that the economy could not help but suffer from too much money chasing too few goods, and that sweeping new fiscal measures were necessary to head off inflationary pressure. The opposition within the community of professional economists was largely confined to the question of means. It was conceded by all that some dampening measures were appropriate; the issue was primarily whether they should be largely in the fiscal or in the monetary area. The monetarists argued for a decision by the Board of Governors of the Federal Reserve System to raise the discount rate. However, both advocates of fiscal action and proponents of monetary measures were united in the diagnosis that the economy was increasingly inflation-prone. All felt that some reasonably dramatic action was necessary.

Political Factors

The political environment in 1966 contained three principal elements: (1) a President, at the zenith of his personal influence, firmly committed to a revolutionary expansion in federal domestic activities, on the one hand, and to firm prosecution of a limited war on the other; (2) a Congress with a huge one-party majority and a general inclination to pass the President’s legislative proposals, but also heavily laced with “landslide freshmen” who had been elected in the Johnson avalanche but were in serious danger of losing their seats through a return to the more traditional preferences of their electorates, particularly if they could be charged with having raised federal taxes; and (3) general public ignorance of the long-term and brutally expensive nature of the Vietnam war.

The President’s first political priority was to counter the argument, well accepted in professional economic circles and growing in the Congress and the body politic, that sensible economic policy required a “guns or butter” choice. The President continually promoted the view that the country could afford to discard neither such domestic initiatives as the War on Poverty nor its commitment (as he saw it) to provide whatever help was necessary to avoid the conquest of South Vietnam by Communist forces. Moreover, it was widely believed in the Administration—and apparently by the President—that the most expensive aspects of American involvement in Vietnam were likely to be short-lived so that additional costs would add up to nothing more than a mildly bothersome wrinkle in the general upward trend of defense expenditures which had begun in 1961. The basic Administration argument was that the immediate cost of Vietnam did not exert a major inflationary stimulus, that it could be offset by a relatively minor adjustment in excise taxes and tax withholding policy, and that the expansion of domestic programs would be spread over a sufficient number of years that the federal budget would at no time become a major inflationary engine.

This, however, was the public argument. Inside the administration, there was great concern that the cost of Vietnam had been understated, that the susceptibility of the economy to inflationary pressure was greater than was generally believed, and that the growth of the many new domestic programs would be sufficiently rapid and dramatic that new measures needed to be taken before the inflationary spiral became serious to be certain that the new expenditures would be offset by contractionary influences upon business and consumer spending.

On Capitol Hill, meanwhile, there were very powerful forces working against any explicit ap-

proach to the "guns or butter" problem. Particularly in the House where the less secure members had only two years in which to demonstrate to their constituencies that they should survive, many individuals had staked their political lives on support of a radical expansion in federal domestic activity. Most of them also supported the President in his Vietnam policy, but did not find it in their interest to inquire into the wisdom of a financial policy which assumed that the war would be short and relatively cheap. And there was a general feeling that the one piece of Presidential legislation which might be suicidal to support would be an increase in taxes. Therefore, there was very little pressure on the President to make clear (a) the financial contingencies involved in Vietnam, (b) the cumulative effect of a pessimistic projection of Vietnam expenditures and the growth in cost of Great Society programs, and/or (c) the effect on the federal budget in the absence of new taxes.

ORGANIZATIONS AND INDIVIDUALS PARTICIPATING IN THE DECISION

Overview

The organizational machinery for the making of macroeconomic policy in the federal government is very young by bureaucratic standards and very sensitive to the particular philosophy and personalities involved in the Administration. Despite the passage of the Full Employment Act of 1946, which established the President's Council of Economic Advisers and the general proposition that the federal government should engage in macroeconomic planning and management, the structure for evolving and implementing decisions was slow to form and even slower to congeal into a reliable process. Perhaps the most egregious evidence of this—and also one of the most important stimuli for improvement—was Treasury Secretary George Humphrey's comment *after* the publication of President Eisenhower's proposed budgets that the inflation which would result if the budget were enacted would "curl your hair". The embarrassment in which the President was forced to withdraw his original budget, rework it completely, and put forward an entirely different document was an experience no President had any desire to repeat.

The Kennedy Administration was firmly committed to Keynesian activism in the management of the economy. It therefore established reasonably clear responsibility for determining macroeconomic policy, and expressed the division of labor in two ongoing bodies, without statutory mandate, but

with considerable recognition and influence within the Administration. It is a tribute to the authenticity of these structures that they were actually used as the principal vehicles for intra-Executive Branch debate and decision. Thus, this section will concentrate on these organisms along with the rather less structured vehicles for consultation and cooperative deliberation with the Congress.

The Troika

The Troika was an informal grouping of the three officials of the Executive Branch with the most obvious responsibility, expertise, and staff capacity to deal with both the analytic and the prescriptive aspects of macroeconomic policy. The principals were the Chairman of the Council of Economic Advisers, the Director of the Bureau of the Budget, and the Secretary of the Treasury. Together they constituted the quorum of Executive Branch officials necessary to develop and carry out fiscal policy—if they were able to persuade the Congress to enact the necessary legislation. Joined together on their own initiative and without statutory mandate, they operated as though formally established, holding regular meetings, keeping track of debates and decisions, and assigning staff members to permanent roles in cooperative performance of the analyses necessary to inform their debate. There was no chairman, and the participants continued in their respective roles as formulators and operators of the specific activities which make up fiscal policy. That is, the Budget Director was the principal official responsible for specific and general expenditure policy, review and recommendation; the Secretary of the Treasury performed the ministerial functions of tax collection and, in general, was regarded in Congress and among the public as the Administration's principal spokesman on revenue policy; and the Chairman of the Council of Economic Advisers was chief adviser to the President on all aspects of the economy and headed the most concentrated and wide-ranging staff of professional economists in the federal government. The Troika did not emphasize unanimity, but undertook to be certain that no recommendation would reach the President without a serious discussion among the three principals, and that those issues which would not arise in the course of day-to-day operations but which had substantial economic consequences would be identified and analyzed within the joint Troika staff.

The Troika operated on three levels:

—The technical chiefs of the three agencies compiled data and analyses to support various policy options. (This was known as Level T-3.)

- The Assistant Secretaries (or their equivalents) would incorporate the technical data into full blown policy options for presentation to their principals. (Level T-2).
- The principals reviewed the staff's work, debated the proposed options, and forwarded their united and/or individual recommendations to the President. (Level T-3).

The Quadriad

The Quadriad simply added the Chairman of the Board of Governors of the Federal Reserve System to the members of the Troika, in order to make the group competent to deal with monetary policy, which, as an operational matter, is largely in the hands of the Federal Reserve. The staff processes were the same, at least in theory. In practice, however, the independence of the Federal Reserve and the general atmosphere of tension between the President's economic advisers and the incumbent Chairman of the Federal Reserve System tended to make the staff work a somewhat more arms-length activity than was characteristic of Troika operations. The same was true of deliberations involving the principals. The Chairman of the Federal Reserve was under no compunction to join in Quadriad debates, made that clear on appropriate occasions, and, in general, played a very different role from the three Executive Branch members.

The Congressional Structure

The Constitution places the House of Representatives in an unambiguously leading role with respect to money legislation. Within the House, tradition, the seniority system, and his own special skills and interests placed the Chairman of the Ways and Means Committee, the Honorable Wilbur Mills, in a position of singular power with respect to tax measures. Although the evidence backs up his own insistence that Mills could not secure the agreement of his Committee with respect to every proposal he made or opposed, it is also clear that in 1966, he was by far the most important single force in the Congress on any question of adjustment in the tax laws. Thus, much of the "structure" of consultation with the House reduced to arrangements for bilateral contacts with Wilbur Mills.

However, Mills traditionally, and apparently in this case as well, restricted his range of commentary to the economic and financial merits of a proposed change, and did not directly address the political self-interest of the House membership at large. For treatment of questions of that nature, it was neces-

sary to consult the Democratic and Republican leadership. However, even this consultation was often insufficient because it did not provide a dependable link to the various special groupings (e.g., the Democratic Study Group) in which many of the younger, less established congressmen seem to have shaped and expressed their views. These groups were particularly important in a Congress so heavily populated with first termers who often found it difficult to work through channels formed primarily through the workings of the seniority system.

Mills' counterpart on the Senate side was the Honorable Russell Long, Chairman of the Finance Committee. Although in a distinctly less powerful position than Mills with respect to control of the Senate, Long's Committee was the necessary hurdle to any serious consideration of tax legislation in the upper house. The Senate leadership, in the persons of the Honorable Mike Mansfield, and the Honorable Everett Dirksen, served the same purpose as their counterparts in the House as conduits of general senatorial concerns and opinions. However, there was an additional factor in the Senate in that the fear and incipient opposition to heavy involvement in Vietnam was further advanced than in the House, particularly as expressed in the Senate Foreign Relations Committee. Although most comment had not reached the stage of outright opposition, there were audible rumblings about the likely cost and possible benefits of the war. Thus, there was a special premium upon demonstration that economic factors did not demand a head-on choice between Great Society domestic programs and enlargement of the Defense budget, with the only viable compromise entailing a substantial increase in federal taxes.

The word "structure" is not perfectly descriptive of the often convoluted channels through which consultation with these principals and many of their colleagues was carried on. However, it was clear throughout the process that the views, aspirations, concerns, and announced intentions of the principal Congressional leaders were at least as important to the President's decision process as any analysis or advice he received from within the Executive Branch or from the Federal Reserve System.

MAJOR ACTORS

The incumbents in each of the official positions mentioned above were as follows:

President of the	
United States	—Lyndon B. Johnson
Secretary of the	
Treasury	—Henry H. Fowler

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Chairman of the
President's Council of
Economic Advisers —Gardner Ackley
Director of the
Budget —Charles L. Schultze
Chairman of the
Board of Governors
of the Federal
Reserve System —William McChesney
Martin

In addition, Secretary of Defense Robert S. McNamara played an unusually strong role in determining one of the major contextual bases for a judgment on the tax question—the likely Defense budget expenditure pattern as a result of Vietnam. Another important player was Joseph A. Califano, the President's chief staff person on domestic affairs, who regulated the flow of paper to the President and controlled the President's schedule as it related to these matters.

CHRONOLOGY OF THE DECISION PROCESS

Spring/Summer 1965

The first serious indicator of widespread concern among influential observers about overheating of the economy came in a speech by Federal Reserve Chairman Martin at Columbia University on June 1. Martin called attention to the similarities he discerned in the prosperity of 1965 and that of the late 1920s just prior to the stock market crash. Although hotly contested in the press by Administration spokesmen, it was clear that Martin's disquiet was widely shared, particularly in the more conservative circles of the business and banking communities. These concerns were multiplied by the President's announcement later in July that the United States would commit an additional 50,000 men to Vietnam. Unemployment continued to drop through the period and the preliminary indicators of sectoral inflation began to appear. Although business indicators were mixed, there was growing concern in the membership and staff of the Troika that expansion was proceeding too rapidly to be contained without substantial pressure on the entire price structure.

Fall 1965

By late September the signs of major inflationary pressures were unmistakable. The New York Times headlined "The Threat of New Inflation Dominates

Economic and Business Discussions". The Administration, in a context of growing concern and internal debate about the "guns or butter" issue, adopted a public policy of high level exhortation of business and labor to keep price and wage increases within the voluntary guidelines (3.2%) developed and announced in 1962. Each announcement of a major industrial price increase or a business or labor position in a forthcoming negotiation which violated these guidelines was met with strong language from the President and CEA Chairman Ackley which invoked the spectre of nationwide inflation and disintegration of the general prosperity which had characterized the economy for the previous four years. Nevertheless, indicators continued along worrisome trend lines and most influential forecasts in the business and academic communities continued to suggest the inevitability of large scale inflation.

Meanwhile, projections of budget revenues and expenditures for the following year were substantially hampered by the failure of the Department of Defense to provide realistic estimates of Vietnam spending. The Department, and the Bureau of the Budget, adopted a planning assumption that the war would be over by June 30, 1967 (the end of the fiscal year), and that the cost of U.S. involvement would taper off in the months preceding that date. Hamstrung by this assumption, the staff work performed by the Troika on the inflationary impact of the federal budget was useless as a planning basis, and was generally regarded as such even by the staff members who prepared it.

Winter 1965/1966

Chairman Martin kept up his barrage of criticism of Administration policy in November, and it became clear as time went on that he was speaking for a large and growing segment of the economic cognoscenti. He led the Federal Governors in a contractionary reduction in the discount rate in December. The Administration's reaction to the early sniping was to set up a "jawboning" effort. When the end-of-November price indices were released by the Bureau of Labor Statistics, however, the President was forced to give his first public indication of serious concern. He announced that he would engage in informal discussions on the economy with the members of the Troika and the Quadriad, while the Secretaries of Commerce and Labor—clearly on Presidential instruction—undertook a public campaign to emphasize the strength of the economy and to soft-pedal the extent of the threat of inflation.

The internal policy debate around the President

began to reach that point of sustained intensity which signals the approach of a major policy decision. The President's traditional economic advisers were largely agreed that if Vietnam spending continued at anything like the rate of then-current expenditures—which were substantially higher than the previous Budget Bureau and Defense Department estimates—there was no effective antidote to overwhelming inflationary pressure other than a general increase in taxes. On the other hand, Secretary McNamara is reported to have argued that it would be a major error in Vietnam policy to indicate any public acceptance of the notion that the war would stretch out beyond June of 1967. Accordingly McNamara argued strongly against a tax increase, in justification of which that premise would have to be made explicit. The signals from Capitol Hill supported McNamara's conclusion, if not his argument. The weight of Congressional opinion, particularly in the House, seems to have been that a tax increase was the only piece of legislation which Lyndon Johnson could not succeed in pushing through the House of Representatives, and that no justification based upon inflationary trends or the priority of war expenditures would succeed in passing such a bill. Indeed, the argument ran, the only effect of such a proposal would be to focus attention upon the war and dramatize the strong misgivings which had already appeared in the speeches of such respected younger leaders as John Lindsay of New York. These concerns were greatly strengthened by the strong opposition of conservatives, including Wilbur Mills, to the Great Society legislation on the grounds that its long-term financial impact would be ruinous. Mills apparently made it clear in private to both the President and his principal advisers that he would insist upon major cutbacks in Great Society programs as the price for any tax increase, although he seemed generally to agree with the analysis which suggested that an increase was necessary if serious damage to the economy was to be avoided.

The focus of the debate was the Presidential message accompanying the proposed fiscal year 1967 budget, which was to be sent to the Congress in January of 1966. The argument was the more intense because most knowledgeable observers believed that the Budget Message was the last point at which the President could make a compelling case for a tax increase with some outside possibility that action could be taken in the early spring, thus maximizing the temporal distance between that action and the fall elections. There is some evidence that the President himself shared this view.

The President's decision came in late December. It was composed of three major parts:

- Continuation of the planning assumption that the Vietnam war would come to an early and relatively inexpensive end.

- Proposal of a small tax package, called the Tax Adjustment Act, which would temporarily reinstate automobile and telephone excise taxes, accelerate the schedule for withholding of personal and corporate income taxes, and eliminate the tax credit on corporate investment.

- Adoption of a public posture that the proposed budget would combine with the passage of the Tax Adjustment Act to produce a "mildly" inflationary situation, but that this would not be serious enough to justify the much more unfortunate effects of the proposed remedy.

The Administration's position was best expressed in Gardner Ackley's statement of March 1966, in which he said that "we are not facing an explosive situation. A little inflation will not be fatal. But inflationary psychology and inflationary symptoms are taking root. If they do get firmly established it will be hard to uproot them and hard to resist pressures for overly restrictive action". The Administration's message was clear: Unless the private sector practiced sufficient restraint to offset the short-term effects of Vietnam-bloated federal spending, the Administration would be forced to propose tax increases which, combined with the expected post-Vietnam cutback in Defense spending, would have an overly contractionary effect on the economy and produce the first recession in five years.

The Post-Decision Period

The remainder of 1966 witnessed reasonably clear and continuous movement toward the eventual proposal for a tax increase to be effective in mid-1967. Continued escalation of the war, and the imperviousness of Hanoi to any of the alternating assaults and blandishments which characterized American peacemaking, demonstrated beyond the faintest doubt that Vietnam expenditures would continue very high for a long time. The disintegrating effect upon the Administration's position caused by the huge budget deficit in fiscal 1966 was further accentuated by the realization of the conservatives—starting with Senator Stennis—that Vietnam expenditures would be at least \$10 billion over projections. Only the upcoming elections avoided a strong push in the Congress itself for a major adjustment in income taxes. As soon as the elections had passed, opinion inside and outside the Administration coalesced in favor of a tax increase (with the exception of those senators and congressmen who had declared themselves against Vietnam and used the avoidance of a tax increase as one of their arguments). By the time his fiscal year

1967 budget message appeared, the President had no practical choice other than to propose a tax increase, and he did in fact recommend a temporary 10% surcharge on the income tax, which the Congress did enact.

ASSESSMENT OF THE DECISION PROCESS

A major tax decision engages more of the interest groups and individual actors in the American political arena than virtually any other decision on "domestic" policy. A complete assessment of the internal bargaining process and the relative weights of the major characters in what was perceived as an essentially domestic matter would be beyond the purview of this paper. However, it is proper, in our judgment, to analyze the decision process from the point of view of its attention to the purposes and concerns usually associated with foreign economic policy.

Clarity of Objectives

The paradox presented by this decision lies principally in the fact that the perceived objectives were extremely clear and not in themselves matters of great controversy. All parties sought a reasonable combination of low unemployment and price stability in a context of continuation of the steady, solid growth of the previous four years. The President and a majority of the Congress wanted to achieve these ends while at the same time launching a revolutionary expansion in federal domestic programs and prosecuting what they sincerely hoped would be a short and relatively inexpensive war. The "landslide freshmen"—in concert with their colleagues who had less dramatic but basically similar problems—wanted these objectives achieved without having to go on record in favor of a major tax increase in an election year. A minority of powerful conservatives, on the other hand, was terribly concerned about the fiscal effects of the Great Society programs and favored a substantially different balance between the objectives.

As major decisions go, therefore, the intensity of the debate on the objectives themselves was relatively low. With the benefit of hindsight, however, it is reasonable to ask why the foreign policy component of the objectives was so narrow, and why there was no channel in the organizational structure by which a more rounded view of American foreign policy concerns could be presented. The record suggests that the issue of U.S. posture in Vietnam—and the related question of the place of the Vietnam issue in the American political debate

—was the sole foreign policy matter of major moment in the minds of the decision-makers. There is no evidence in the record that:

—The President was ever subjected to a detailed recounting of the effect of massive U.S. inflation upon our major trading partners, upon our capacity to continue our support of economic development in the poor countries, and upon the world's capacity to sustain a reasonably stable international monetary system. Neither was there a detailed discussion of the likely effect of internal economic stress within other major world powers upon the viability of their internal politics.

—The policy planning process ever produced at any level a plausible projection of the foreign effects of the contractionary measures likely eventually to be forced upon the United States to bring the economy back into balance if inflation were allowed to get seriously out of hand.

—The system produced an analysis of the incentive effects of inflation upon multinational corporations to change the locus of their operations and thereby enlarge an already complex problem of national governance of international economic entities.

Put simply, there is nothing in the record to suggest that the objectives of traditional foreign economic policy received any extended attention in this debate at all. More importantly, there is no obvious place in the organizational channels established for deliberations of this kind where these concerns might reasonably have been expected to arise.

Availability of Information

The evidence indicates that, because of the importance of the decision, the decision-makers were provided with any information they felt they needed. The major exception to this was the unwillingness of the Defense Department and apparently of the Bureau of the Budget to prepare contingency expenditure projections for Vietnam. This clearly had the effect of keeping some Troika staff and perhaps even one of the principals in substantial doubt about the expenditure effects of a pessimistic Vietnam forecast. However, it is difficult to believe that the Secretary of Defense, the Director of the Budget, and the President were in serious doubt about the general order of magnitude of expenditures implied by that contingency. Within the Executive Branch, therefore, it is safe to conclude that the general scale of the alternatives was reasonably well known to the decision-makers themselves.

In the Congress and even more in the body pol-

itic, however, it is clear that the scale of the Vietnam element was largely unknown—although here again there is reason to believe that some of the ignorance was deliberate.

On the domestic side, all reports suggest that a thorough job was done on the macroeconomics of a tax increase, on special effects in particular areas, on the principal alternative means—rate increase versus surcharge, temporary versus permanent, etc.—which might be employed, and on all other aspects of technical and political concern which ought to have been reviewed.

Once again, the lesson seems to be that the machinery was quite capable of producing detailed analysis and heated debate on subjects which were perceived to be relevant, but was not effective at forcing upon the decision-makers a body of information which would certainly have been an unpleasant addition to the complex matters before the House but would seem in retrospect to have an absolutely legitimate claim to relevance.

Decision-Making Efficiency

Unlike many other decisions in this series, there is no serious contention that the decision could have been made at any level lower than it was. The option to propose or not to propose major tax initiatives clearly lies with the President, and no useful purpose would be served by any organization which attempted to vest the authority at any lower point. This is properly Presidential business, and the President properly conducted it.

However, the decision mechanism, as has often been pointed out with respect to the peculiar way the United States goes about making fiscal and monetary policy, provided maximum incentive to avoid a clear-cut choice and to adopt a wait-and-see posture. Because of the division of labor between the President and the Congress in these matters, the President was able to argue, with considerable persuasiveness, that no bill to increase taxes would pass the Congress. The Congressional leadership, on the other hand, could argue that it had never been presented with any proposal for tax increases, that it was without resources to perform any independent analysis of the likely expenditure effects of a continued escalation in Vietnam, and that it was up to the President to propose so that Congress could dispose. Thus, it was easy for the principal parties to agree upon the “let’s wait and see what happens in Vietnam” posture which the President embodied in his budget message and which the Joint Economic Committee, despite strong opposition among its staff, accepted after its budget hearings. (This is not to say that the Joint Economic

Committee is the principal vehicle for the views of the Congressional leadership; in this case, however, it was allowed to be a spokesman for that view in the sense that it released a report which went unchallenged as the single formal express of Congressional opinion on this issue during the spring of 1966.)

Because responsibility for fiscal measures is shared between the President and the Congress, and neither has the *de facto* capacity to move without the other, the natural inertia of a cumbersome mechanism was added to the important factors implicit in this particular decision which argued for a temporizing posture. It is interesting, by way of contrast, that the one member of the economic policy-making firmament who had the independent capacity to act was the only one who took a genuine step in the direction of the contractionary policy he felt was necessary. This was Chairman Martin, when he prevailed upon his colleagues to move toward a more contractionary monetary policy in December 1965, the only sizeable anti-inflationary step that was taken prior to Congress’ passage of the mild Tax Adjustment Act in March of 1966.

Openness

Tax decisions generally receive more detailed and lengthy public debate than any other economic issue to arise in American politics. This issue was no exception. However, the record indicates that sheer openness does not tend to enlarge the chances that foreign economic policy considerations will enter into such a debate. Indeed, it may be possible to conclude from this example that the effect of major tax decisions on domestic politics is so great, both in prospect and in actuality, that open public debate tends to drive out whatever fragile periphery of systemic concern about the world economy, or more parochial but long-range worries about the viability of the American economic system, that may exist.

It has often been noted that foreign policy in the United States tends to have the aspect of received wisdom, delivered to a relatively inert populace by a supposedly expert executive leadership. Tax decisions have no such aspect. It is worth pondering, therefore, whether even perfect foresight about the non-Vietnam foreign policy consequences of the failure to enact a tax increase would have allowed the seer to be heard over the din generated by the short-term domestic consequences. It seems safe to speculate that even if such a voice had been audible it would have been far from decisive. However, the record suggests not simply that it was inaudible but that it did not exist, nor was there any incentive in the decision-process sufficient to induce it.

ASSESSMENT OF OUTCOME

The sequence of events in the U.S. and world economies subsequent to the no-tax decision is too well known to justify a substantial investment of space here. In brief, the year 1966 ended the extended period of rapid American economic growth at stable prices, and started the domestic economy upon a rollercoaster which features high demand-pull inflation blending into high cost-push inflation. In 1969 a drastic contractionary effort was launched which had only moderate success in reducing inflation, but led to the recession of 1970-71. This was followed by a brief recovery, marked by even more serious inflationary tendencies now substantially reinforced by major shortages of raw materials, and subsequently by the current slide into what promises to be an even deeper recession combined with unprecedented high and sustained price inflation. Most authorities would agree that the similarly mercurial record of the world economy during this period owes more to these instabilities in the United States than to any other single source.

With more specific reference to the particular effects on U.S. foreign policy, the following phenomena seem clearly traceable to this basic decision:

- Realistic public consideration of the cost and benefits of Vietnam was clearly—and perhaps fatally—delayed.

- The United States balance of payments, which had been increasingly deficit-ridden since the late 1950s, absorbed a series of crushing blows as inflation destroyed the traditionally positive balance of trade. These blows greatly limited American capacity to play a constructive role in internal European politics (particularly relations between West Germany and her principal neighbors), to maintain a credible role as acknowledged leader in the evolution of international monetary arrangements, or to mount effective development programs in the less developed world.

- A massive expansion in the exportation of previously American jobs to manufacturing operations based abroad.

- A resulting acceleration in the change of policy positions among major constituencies, particularly the labor community, on such a staple foreign economic policy question as free trade versus protectionism.

- A substantial delay in the evolution from the Kennedy round to another series of global negotiations for general reduction of tariffs.

- Stresses upon the world trading system which substantially increase the danger that

the philosophy which produced the GATT and other arrangements designed to promote free flow of people and goods would give way to a tit-for-tat, beggar-thy-neighbor posture in which the general prosperity, and particularly that of the less developed countries, would almost certainly suffer.

- General reinforcement of the widespread belief in Europe, Japan, and elsewhere that in a crunch the United States would retreat to reliance upon its advantages as a continental economy, and make all choices in which domestic interests differed from those of the world economy in favor of domestic priorities.

In blunter terms, there is much to suggest that the decision against the tax increase in 1966 was the beginning of a period of marked and as yet unending decline in the leadership position of the United States in the world economy. Some such decline was an inevitable concomitant of the declining dominance of the United States as an economic power. However, there is a strong case to be made that a discontinuity in that gradual retreat occurred at the point when the United States demonstrated to the world that it could not come to grips with a basic allocative decision, and that, in making its non-choice to "wait and see," the serious implications for the rest of the world economy went largely ignored.

PROBABLE PERFORMANCE OF ALTERNATIVE STRUCTURES

The humility appropriate to discussions of the effect of organization upon policy is particularly accentuated where a tax decision is concerned. The issues are so central to the day-to-day preoccupations of the electorate and, accordingly, to those of elected politicians, that the formal organization of the debate is probably less important than it may be for other issues. Nevertheless, three possible alterations in the then-existing structure might conceivably have made some difference in the issues addressed in this paper.

Changes in the Membership of the Troika and Quadriad

As noted above, neither the Troika nor the Quadriad contains any continuing principal or staff membership which guarantees attention to the effects of events and policies under discussion upon the foreign policy of the United States. All of the principals have, at least in theory, some concern for and access to information bearing upon foreign mat-

ters, but none has anything like the general foreign policy purview of the Secretary of State or the Assistant to the President for national security affairs. Accordingly, there is no evidence that either of these officials played any substantial role in the 1966 deliberations.

Moreover, there is much to suggest that even if these principals had been actively engaged, their personal time and attention were so preoccupied with events in Vietnam that it is not unlikely that other foreign concerns might well have been subordinated in their minds as well. Thus, it would seem that simple membership on the Troika and the Quadriad of one or more of the principal foreign affairs officers would not have insured a more inclusive debate. A broader approach would have been likely only if the *staff* operations which prepared the issues and options for the principals had included people with foreign affairs concentrations other than Southeast Asia.

Discretionary Fiscal Policy for the President

The unwieldiness of the American system for making or changing fiscal policy is sufficiently legendary to need no recounting here. However, the case does demonstrate the costs of this slow footedness, both in greatly extending the time necessary to reach a decision and, as previously noted, in maximizing the incentive for inaction. Thus, the "stand-by" powers often proposed, whereby the President could raise or lower taxes within prescribed Congressional limits, are very much to the point. Had these powers existed, the arguments cited by the President within the executive branch in justification of his choice would have been removed. In our judgment it does not follow, however, that this fact would have changed this particular decision. It seems clear that the President's overriding concern was to avoid the foreign and domestic effects of formal acknowledgement that the combination of a pessimistic view of Vietnam and a rapid expansion in the domestic side of the federal budget would raise large and inescapable questions of basic allocation between public and private sector priorities. Nevertheless, it does seem fair to conclude that if the President could not have cited the Congress as the obstacle to a tax increase, he would have at least found it necessary to defend himself against stronger and more penetrating criticism inside and outside the executive branch, and that, in the end, he would have moved much more quickly when, as in the summer of 1966, it became clear that the planning assumptions upon which his earlier policy had been based were erroneous.

If one further assumes a different President operating with perhaps a greater basic concern about the effect of American actions on the structure of the world economy, the case for discretionary authority would seem even stronger. If it is true that the openness of public debate about tax issues tends to increase rather than decrease the tendency to view them as essentially short-term domestic problems, it may well be that the longer-term and world-wide systemic effects of major tax decisions will only be considered if they are primarily questions of the use of executive authority. This has obvious implications—not all of them positive—for the general functioning of the democratic process, but from the perspective of this paper it is very much worth explicit consideration.

A Foreign Affairs Community More Sensitive to "Domestic" Processes

Much of the personal and institutional irrelevance of officials principally concerned with foreign affairs seems to flow from their insulation from the principal processes by which "domestic" policy is made, both in the executive branch and in the Congress. It is reasonable to question whether, in addition to formal involvement in such operations as the Troika and the Quadriad, there could not have been some more reliable arrangement whereby the Secretary of State, the President's Assistant for National Security Affairs, and other officials became more knowledgeable about the nature of public and Congressional opinion on these issues. Indeed, there is a legitimate question whether they should not be in a position regularly to express themselves on issues which the Congress and the public generally regard as outside their fields of expertise and responsibility.

The question arises whether growing interdependence among nations will permit the nation's principal foreign affairs officers the luxury of obliviousness to domestic developments. Although it is difficult to find a statute which barred these officials from public expressions on such subjects as a tax increase, it is fair to conclude from the general history of American government that any such statement would be regarded by other members of the Administration, and probably by the President, as unwise trespassing upon distant turf. It is reasonable, therefore, to ask whether organizational arrangements which forced the Secretary of State, for example, to express a public opinion upon such questions would be useful. For example, it might have been sensible to consider inviting the Secretary of State to testify in the Joint Economic Committee hearings on the budget, and to assure that his testimony would be directed to subjects other

than the likely progression of events in Vietnam. Whatever the value of this particular suggestion, the case is replete with evidence of the need for careful examination of the incentives which could be generated by a statute or presidential policy to assure that the debate of tax issues activates the foreign policy planning and assessment mechanisms to a degree nearly equal to those of the agencies and individuals charged with stewardship of domestic economic policy

* * * *

The real significance of the no-tax decision of 1966 is twofold:

- It was probably the last point at which there was a reasonable chance that decisive action in the United States could have substantially changed the largely unfortunate progression of economic events which characterized the following five years both in the United States and in the world at large.
- It was the point where it became most obvious that the line between "foreign" and "domestic" economic policy in the United States had become not simply useless but actually dangerous.

On balance, it is impossible to conclude that any remotely feasible change in organizational

structure would have resulted in a different decision in this matter. The sole change which could have had major implications would have been a discretionary power in the President to make adjustments in the tax rate without recourse to Congress, but even that would probably not have had any effect other than to avoid some of the extended post-decision delay before the President reversed himself and an increase was enacted. Nevertheless, the experience ought to be extremely instructive as a lesson for the future. The novel aspects of the choice have long since ceased to be novel and are now recognized staples in academic literature and in professional debate about American economic policy in the Congress and elsewhere. Nevertheless, it is important to point out that neither the organizational structures nor the habits of mind which produced a lopsided view of the importance and pervasive effects of tax decisions has changed greatly in the intervening period. The fact is that as a nation we still view tax decisions as peculiarly domestic matters. The 1966 case conclusively demonstrates that this is a particularly virulent form of myopia which the nation would be well advised to move quickly to remedy.

Appendix I: Conduct of Routine Relations

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Introduction

Appendix I contains a study designed to shed light on the processes of U.S. decision-making concerning a number of areas in Latin America which—unlike Europe, the USSR, and the Middle East—rarely engage the sustained attention of top officials. Based on the analysis of policymaking in a number of issues involving Latin America over the last decade, the study concludes that such decision-making appears to accord considerable weight to U.S. economic interests and a large role to the Congress, and argues that national interests appear too frequently to be sacrificed to the pressure generated by particular claimants.

The study proposes a number of changes which might reduce these effects. These include methods for making Presidential attention to Latin America more productive; means for strengthening the State Department's relations with committees of the Congress and encouraging State both to clarify and support the general and long-term U.S. interests affected by Congressional proposals; and the creation of a private council on inter-American relations intended to represent interests other than those now spoken for by the Council of the Americas.

The study is a thoughtful and interesting examination of issues which are of concern to those interested in Latin American affairs, or in more general problems of U.S. policymaking.

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Part One: Cases and Issues

The Making of U.S. Policies Toward Latin America: The Conduct of 'Routine' Relations

Abraham F. Lowenthal, et al.
December 1974

INTRODUCTION

The following pages comprise the final substantive report of the research project on "The Making of United States Policies toward Latin America: The Conduct of 'Routine' Relations," conducted under the auspices of the Commission on the Organization of the Government for the Conduct of Foreign Policy.

The report is divided into two parts. *Part I: Cases and Issues* presents a series of individual essays intended to illuminate the nature of U.S. foreign policy-making processes as they affect Latin America and to examine from a variety of perspectives the relationship between foreign policy-making processes and outcomes. These are summary versions of longer papers originally prepared for this project. No claim is made that these papers represent all or even much of the material one would want to consult in asking how U.S. foreign policies affecting Latin America are shaped, or how the processes for making these policies might be improved. As in all such enterprises, some essays were chosen because interesting and seemingly relevant work was known to be available; other papers were commissioned because questions thought to be of central interest could not easily be answered on the basis of pre-existing materials. In both cases, however, a unifying concern was to shed light on how U.S. policies are made on the essentially "routine" interactions, generally with respect to economic issues, which comprise most of the substance of relations between the United States and Latin America.

In concentrating on day-to-day interactions—rather than the more oft-discussed "crises" in inter-American relations, such as the repeated overt and covert U.S. interventions in the region. (I do not by

any means intend to minimize the importance of these landmark events; I have myself written a book on one of these episodes, the Dominican intervention of 1965.) Our emphasis on routine relations, however, responds not only to the Commission's expressed interest in that subject but also to a sense that one important way to improve U.S. policy making toward Latin America would be to concentrate some analysis on what most U.S. government officials actually do most of the time.

Part II: Propositions and Proposals attempts to generalize about the nature of U.S. policy making as it affects Latin America, as well as to offer suggestions about how the policy-making process might be restructured to increase the probability that governmental actions will advance this country's long-term national interests in the region. If Part I requires a caveat because we have considered only a very few specific issues, Part II must be accompanied by an even more emphatic disclaimer. These papers which put forth proposals for organizational change are quite tentative. None of the authors of these three essays would want his paper to be thought of as representing more than reasonably informed speculation, stimulated by the Commission's concerns. None of us would urge adoption of any of his suggestions without further consideration, nor would any of us be surprised if persuasive objections should arise to many of our proposals. The Commission has urged us to advance some specific recommendations, however, and we believe it important to accept that invitation.

One final word on procedures, and then a note of acknowledgements.

The project's format included an initial workshop in June 1974 at which some propositions about the nature of U.S. policy making toward

Latin America were discussed, and particular cases and issues were defined for analysis; a phase of individual research and writing on the papers presented in Part I; a November conference to discuss drafts of the case and issue papers (Part I) and to encourage speculation about organizational implications and possible recommendations; and a brief period during which the results of our brainstorming could be subjected to the test of at least a few interviews in Washington. No one is more aware than I that this final phase would have had to be much more extensive to be really promising; I do hope at least that the questions we asked in three days of Washington interviews were helpful and that we will soon have a more sustained chance to discuss them and to learn from the perspectives of many who have thought much more about these issues than we.

Thanks are due to many persons. First, all of us express our gratitude to those who granted us interviews and who helped us obtain access to vital

documents and evidence; virtually everyone we approached cooperated enthusiastically in our individual research endeavors. Second, we express unqualified appreciation of the assistance and stimulation provided by Peter Szanton and William Bacchus of the Commission's staff and by many of their colleagues at the Commission's headquarters.

Finally, I am most grateful to all my colleagues on this research project, whose continuing commitment and standards allowed the project to proceed on schedule even while the pressures of a new job prevented me personally from devoting as much time and attention to working on the individual papers as I would have liked. I express particular thanks to Marie Jones, whose research work was supplemented by invaluable logistic help of various kinds; to Laura Sands for doing a variety of research, administrative, and secretarial chores; and especially to Gregory Treverton, for his vital contributions to our jointly-authored paper, and to the whole project's shape.

United States Policy-Making Toward Peru: The IPC Affair

Gregory F. Treverton*
December 1974

In June 1963, Fernando Belaúnde Terry was elected President of Peru. A democratic reformer and a friend of the United States, he seemed to be just the kind of leader for whom the Alliance for Progress had been intended. Yet Belaúnde's inauguration was greeted by the U.S. with a partial embargo, a "freeze," on new A.I.D. loans to Peru, a measure designed to induce Belaúnde to fulfill his campaign promise to settle a dispute between Peru and the International Petroleum Company (IPC), a subsidiary of Standard Oil of New Jersey and Peru's predominant oil company. No settlement occurred, but the freeze continued until early 1966, and the thaw then produced only a trickle of aid for Peru before loans were embargoed again, this time in reaction to Peru's decision to purchase supersonic Mirage jets from France. The result was that during the five years of Belaúnde's government, Peru received only \$74.5 million in bilateral U.S. assistance—about one-fourth the American aid per capita received by Colombia and one-tenth that garnered by Chile.¹

In the end, U.S. policy played not a little role in producing an outcome which contravened all the principal American objectives with respect to Peru.

*This study is based on background interviews conducted in the United States and Peru between 1968 and 1974 (a list of persons interviewed appears in the Annex at the end of this summary) and on published sources. I also had access to classified government documents, under Commission rules which precluded quotation or direct citation. The study also has benefited greatly from my participation, during 1973-74, in a Council on Foreign Relations study group on policy making toward Latin America, and especially from conversations with three members of that group—Richard Bloomfield, Luigi Einaudi and Abraham F. Lowenthal. An expanded version of this study is to appear in a Council volume which resulted from that group.

¹These are figures provided by the Agency for International Development and cited in Jerome Levinson and Juan de Onis, *The Alliance That Lost Its Way: A Critical Report on the Alliance for Progress* (Chicago: Quadrangle Books, 1970), p. 155.

On October 3, 1968, the military deposed Belaúnde, replacing him with a military government headed by army General Juan Velasco Alvarado. The Peruvian economy had stagnated in the last years of the Belaúnde government, and the coup put an end to prospects for democratically-led development and social reform in Peru. A government friendly to the U.S. was replaced by a radical, nationalistic regime much less acquiescent to the will of Washington and less receptive to American investors. Nor was even the narrow objective of assisting the company achieved: among the first acts of the new government was the expropriation of certain IPC properties, soon followed by the expropriation of the entire company.

United States policy was a dismal failure, *even in terms of its own explicit and implicit objectives* (leaving aside the question of whether or not those objectives were proper). Why? Answering the question demands attention not only to the nature of American policy making within the Executive Branch but also to relations between the Executive and Congress. And decision making in the IPC case is incomprehensible if it is not cast in the context of the American political process.

There are three interrelated questions to be answered:

1. Why did the U.S. decide on the loan freeze in 1963?
2. Why did no negotiated settlement of the IPC case occur in the early years of the Belaúnde government?
3. Why did the freeze last so long, despite the fact that no settlement occurred and despite the damage it did to the Belaúnde government, a regime which otherwise would have been supported warmly by the United States? This summary focuses on United States policy making and on the impact of "process," broadly construed, on policy. The answers to the three questions lie

partly as well in the Peruvian politics surrounding IPC and in the nature of deliberations inside the company, but those matters will receive only side-glances here; they will be treated only as they bore on policy making within the United States government.

II. The IPC Case: Decisions and Actions of the United States Government ²

The International Petroleum Company (IPC), with formal head offices in Canada and corporate offices in Coral Gables, Florida, was a virtually wholly-owned subsidiary of Standard Oil of New Jersey (Exxon). The oil fields which were the subject of dispute, named La Brea y Pariñas, accounted for 28% of Peru's total production in 1968. The fields had been acquired in 1924 after an arbitration entered into by Peru and the United Kingdom (the latter on behalf of the field's previous owners). The arbitral award, which was increasingly questioned by Peruvians, conferred unique legal status on the field's owners. La Brea y Pariñas sporadically was a political issue in subsequent years, and the legal status of the fields was debated in 1959, but oil was not an issue in the presidential campaign of 1962 nor was the issue revived by the interim military government which set aside the results of that election.

Belaúnde took office after a second round of elections in 1963. His platform, a virtual recitation of the principles of the Alliance for Progress, called for a drastic reformation of Peruvian society. But his inauguration was simultaneous with the U.S. decision to embargo new loans, pending a settlement of the IPC controversy, a problem which Belaúnde had said he would solve during the first ninety days of his term. No settlement was negotiated within ninety days, however, and instead Belaúnde proposed to Congress a law on IPC. Congress, however, responded with a law of its own which simply nullified unilaterally the 1922 arbitration. Throughout the next several years, the coun-

²There are many published accounts of the IPC case. None of these, however, provides details of U.S. policy making during the Belaúnde period. The Levinson and de Onis book cited above provides a brief summary; other sources include: Richard Goodwin, "Letter from Peru," *The New Yorker*, May 17, 1969, pp. 41-109; Rieck B. Hannifin, *Expropriation by Peru of the International Petroleum Company* (Washington: Legislative Reference Service, 1969); Adalberto J. Pinelo, *The Multinational Corporation as a Force in Latin American Politics: A Case Study of the International Petroleum Company in Peru* (New York: Praeger Publishers, 1973); Sherman Lewis, "The International Petroleum Company Vs. Peru: A Case Study in Nationalism, Management, and International Relations" (monograph, California State College, 1972); and chapter two of Jessica Pernitz Einhorn, *Expropriation Politics* (Lexington, Mass.: Lexington Book, D.C. Heath, 1974).

try and the company seemed on the verge of agreement more than once, but each time negotiations broke down. The U.S. responded to the lack of a settlement by continuing the aid embargo. No loans were approved between March 1963 and March 1964, with only a trickle authorized between March 1964 and early 1966.³ In 1966, the U.S. agreed to consider a large program loan to Peru, but the loan was never made, in part because the Mirage affair intervened.

Consider American actions period-by-period:

Imposition of the Embargo

Context. The embargo began amidst considerable concern in the United States with the flow of private investment to Latin America. That investment was regarded, after all, as critical to the Alliance for Progress. Actions which damaged the investment climate in Latin American countries became blows to the Alliance. To a substantial extent, "liberals" and "conservatives" found common ground in concern about threats of expropriation in Latin America, the former because they had embraced an ideology of the Alliance in which foreign investment bulked large and the latter because they were generally outraged by threatened seizures of United States property.

Two events which bracketed the initiation of the embargo targeted and intensified that concern. In February 1962 a state governor in Brazil expropriated a subsidiary of ITT after paying only token compensation. A year and a half later, in November 1963, Argentine President Illia nullified existing contracts with U.S. oil companies. The decrees made no mention of compensation.

Congressional Pressure. Both episodes provoked considerable criticism in the United States, nowhere more than in Congress. The Brazilian expropriation aroused Congressmen covering a broad spectrum of political views.⁴ Several amendments which would have denied foreign aid to expropriating governments were proposed, and State Department officials were subjected to severe criticism when they went to testify on the foreign aid bill.

On May 8, 1962, Sen. Hickenlooper introduced his own amendment, which in modified form became Section 620 (e) of the Foreign Assistance Act. In the form in which it passed the Senate it would have required aid to be denied to any country which did not provide compensation within ninety days of the expropriation; the cut-off was to be automatic,

³U.S., A.I.D., Office of Controller, *Status of Loan Agreements as of March 31, 1967* (Washington, 1967), pp. 35-36.

⁴For examples of Congressional statements, see *Congressional Record*, 87th Cong., 2nd sess., pp. 2615-16; and U.S., Congress, Senate, *Foreign Assistance Act of 1962*, Hearings before the Committee on Foreign Relations, 87th Cong., 2nd sess., 1961-2, pt. 2, p. 5ff.

with the President not enjoying the discretion he usually was granted in such restrictive provisions. Several Senators had reservations about parts of the amendment, though not its intent. In the final House-Senate conference report in July, signed by all conferees, the bill was softened somewhat. "Appropriate steps" toward compensation were required, rather than compensation itself, and the time limit was extended to six months. But the denial of Presidential discretion remained.

The Argentine nullifications sparked a similar outburst of Congressional criticism the next year.⁵ Protests emanated from all segments of the political spectrum, with the Democrats—who feared the impact of the nullifications on the passage of the aid bill—angrier than Republicans. In October 1963, the Hickenlooper Amendment was broadened to include cases in which foreign countries nullified or repudiated contracts with American firms; the extension was aimed explicitly at Argentina.

Executive Action. The embargo began in the midst of these expressions of Congressional interest in the expropriation issue. It reflected the desire of officials to preclude even more severe restrictions on diplomatic flexibility—a prime canon of the Foreign Service Officer's litany of statecraft—than that represented by the Hickenlooper Amendment. Officials worried that if the United States were boxed into formal, public positions, it would be much more difficult to negotiate acceptable solutions. For those in the Department worried about the passage of the aid bill (the Alliance for Progress was a special appropriation bill and customarily more popular than foreign aid in general), it offered a means of displaying Department "toughness" on the expropriation question.

The popular perception of Belaúnde as a kind of Kennedy with a Spanish accent was not widely shared among professionals in the State Department's Bureau of Inter-American Affairs (ARA), the agency directly responsible for policy toward Peru. Belaúnde had been carried to power by a coalition which included radicals; other parties seemed safer bets to those American professionals who were inclined to place the maintenance of non-hostile bilateral relations over the promotion of reformist ideology. And doubts about Belaúnde were only increased by his somewhat reckless promise to present a bill to Congress "settling" the IPC case within ninety days. American officials, especially those at the embassy in Lima, believed "settling" could easily mean "expropriating." Belaúnde later contested that argument, but the bill he submitted to Congress did raise, explicitly, the possibility of

expropriation in the event that the company refused to agree to government conditions.⁶

The embargo was not imposed in a single decision but rather evolved as U.S. officials in Washington and Lima, eager to pre-empt Hickenlooper Amendment-type restrictions on government flexibility and fearful about passage of the aid bill, reacted to events in Peru. In mid-June the embassy was directed to begin the lengthy conversations with candidate Belaúnde necessary in preparation of an aid program. By October, however, when the embassy proposed to make the approval of loans then under discussion public, and to do so at whatever time best suited the Peru-IPC negotiations, Washington refused. Both embassy and Washington remained, nevertheless, hopeful about the negotiations. Belaúnde's October proposal to Congress disappointed U.S. officials, and in November the U.S. decided to continue the embargo—not announcing it but continuing to negotiate with the Peruvians and preparing loans to the point just short of public announcement.

To the extent that high-level government officials were attentive to the issue, their actions served as signals which reinforced the inclinations of the operating officials to begin a pre-emptive aid embargo. In commenting on the ITT seizure, President Kennedy expressed opposition to the restrictive proposals, calling for a "sense of proportion" and suggesting that "we don't want to make those who dislike us' work easy by reacting to things which happen in a way which strengthens them and weakens the influence of the U.S." A year later, after the Argentina nullifications, he stressed the foreign nation's duty to compensate, not its right to expropriate, and he mentioned Peru. "We can't deny the sovereign right of a country to take action within its borders, but we can insist that there be equitable standards for compensating those whose property is taken away from them . . . we are concerned about the oil in Argentina and Peru."⁷

The freeze soon congealed, hardened by a somewhat different rationale. After Kennedy's death, ARA Assistant Secretary Martin was replaced by Thomas Mann, who also became U.S. Coordinator of the Alliance for Progress. To those jobs, Mann, a friend of Johnson's, soon added the title of Special Assistant to the President for Latin America. Mann believed firmly in private property and the sanctity of contracts, and the style of the embargo's implementation—maintaining a freeze but denying

⁶A translation of this bill appears in Hannifin, cited above, pp. 135-41, along with other documents in the case. All the relevant documents, and some commentary, are contained in a volume published by the company, *The La Brea y Pariñas Controversy*, vol. I (Coral Gables: The International Petroleum Co., Ltd., 1969).

⁷Transcripts of the two statements appear in the *New York Times*, March 7, 1962 and November 15, 1963.

⁵See, for example, the statements by Senators Mansfield and Humphrey, quoted by Henry Raymont in "Senators Ask Ban on Argentine Aid," *New York Times*, November 17, 1963.

its existence to the Peruvians—struck him as the proper way to deal with Latin Americans. They would get the message. A.I.D. authorized \$36 million in development loans for Peru in 1964 but did not tell the Peruvians that it had done so.⁸

In January 1964, the embassy requested a return to a normal pace of lending, but Washington answered that the aid level would have to be adjusted to the pace set by the Peruvian government in negotiations with IPC. By May the duality of American objectives was clear: the government would try at once to aid Peru and pressure it to settle the La Brea y Pariñas dispute on terms acceptable to IPC.

The Years of Embargo

Why did the embargo last so long? The answer seems fairly simple: between 1963 and 1966 there was no specific stimulus to changing the policy and no change in the roster of participants which might have tilted the balance of interests involved in the decision process. Ambassador Jones and his deputy, Ernest Siracusa, remained in place in Lima. Mann retained control of Latin American policy even after he was elevated to the position of Undersecretary for Economic Affairs. Lima and Washington continued to differ over specific loans, but there is no evidence that the embassy flatly requested an end to the embargo after the spring of 1964. In fact, it was argued both in the embassy and the Department that once the embargo had become public in Peru, lifting it without some prior Peruvian action would only encourage the extremists in Peru. Finally, Congress remained attentive to threats of expropriation in the hemisphere, although exchanges between State Department officials and Congressmen became less acrimonious than they had been in 1962 and 1963.⁹

A more interesting aspect of United States policy is the behavior of the government while the embargo was in effect. During that time, the government, especially the embassy in Lima, endeavored to stay out of the substance of the dispute. It limited its role to encouraging the parties to negotiate and applauding when the two neared accord. Diplomatic propriety and the American tradition of "arms length" in government/business relations appeared to dictate that the embassy should not offer suggestions or propose compromises. Neither the embassy nor Washington pro-

duced their own assessments or analyses of the merits of the case.

Peruvian Politics and IPC. The Belaúnde government apparently did not at first get the message. Peruvians attributed the slowness in receiving aid to the fabled A.I.D. bureaucratic thicket, at one point even focusing on the loan officer in Peru as the source of the difficulty.¹⁰ Once Peruvians understood the embargo they persisted in the belief that it was a low-level creation, perhaps of the A.I.D. country director, and assumed that higher-level officials both would pay attention to the issue and would be sympathetic to Peru. Belaúnde turned to other (more expensive) foreign sources of credit and began to refuse to discuss the IPC case with U.S. officials, calling it an internal matter.

The pattern of negotiations between Peru and IPC suggests that Belaúnde feared striking a bargain which would be, and would be known to be, acceptable to the company. Any agreement would have had to be submitted to his Congress for ratification and might have become a political football in the hands of a Congress controlled by opposition parties. No doubt, also, Belaúnde worried about the reaction of the political left—both within his own party and in general—to any settlement, and he may have fretted about the response of the military. He did so by 1967.

The IPC/Exxon Perspective. Officials from IPC and its parent made their views known at all levels of the U.S. government, and their views often were communicated between Washington and the embassy. Although IPC was "peanuts" to Exxon, company officials apparently were seriously worried about the "demonstration effect" of an adverse outcome in Peru on other nations in which the company's interests were much larger. That worry may have been enhanced because IPC had been used by the parent company as a training ground for young executives, and more than one president of IPC had become president of Exxon. IPC executives thus took part in a career system much larger than IPC, one which dictated primary attention to the requirements of the multi-national parent company.

The "Lifting" of the Embargo

By late-1965, threats of expropriation in Latin America were fewer than they had been two years before, and the situation of IPC was relatively stable. The passage of time demonstrated that while Belaúnde was unlikely to settle with the company, neither was he eager to expropriate it. In this con-

⁸Levinson and de Onis, cited above, p. 151.

⁹See, for example, the hearings on the 1964 and 1965 aid bills. U.S., Congress, Senate, *Foreign Assistance Act of 1964*, hearings before the Committee on Foreign Relations, 88th Cong., 1st and 2nd sess., 1963-64, pt. 4, pp. 19-24; and same committee, *Foreign Assistance Act of 1965*, 89th Cong., 1st and 2nd sess., 1965-66, pt. 2, p. 23ff.

¹⁰Levinson and de Onis, cited above, p. 153.

text, Lincoln Gordon replaced Jack H. Vaughn as Assistant Secretary and determined to alter a policy which no longer seemed to serve any purpose.

In February 1966, Walt Rostow (who was to move from the State Department to the White House in April) visited Peru and, at an unlikely jungle spot named Tarapoto, received assurances from Belaúnde that IPC would not be expropriated. That assurance, and others, were conveyed to President Johnson, and eventually the embassy was licensed to begin discussion of new loans with Peruvians.

There is no evidence that Congress protested the formal lifting of the embargo, but neither is it clear Congressmen knew there had been a change. The "agreement of Tarapoto" was, after all, secret. Nor did the decision produce a flood of aid; quite the contrary, Peru actually received one third *more* bilateral assistance during 1964-66 when the embargo was *in effect* than it did during 1966-68 when it formally was lifted. Loans continued to be processed slowly even after the embargo "ended". The negotiation of a major program loan was first delayed by Peruvian reluctance to agree to financial conditions the U.S. attached; a \$40 million program loan *was* offered in 1967, but by then the Mirage affair had intervened and the loan was conditioned on the Peruvians not purchasing Mirage, a package which Belaúnde could not accept.

III. Impacts of Organizational Arrangements on U.S. Decisions and Actions

How Did Organizational Arrangements Affect the Definition of Objectives and the Consideration of Alternatives?

The United States government endeavored, in the IPC case, to pursue two, largely contradictory objectives: "assist Belaúnde-led democratic development in Peru" and "support IPC." At first, the incompatibility was not perceived, in part because officials overestimated U.S. leverage over Peru,¹¹ a tendency reinforced by embassy reporting and a matter to be discussed below. Yet the failure to resolve the trade-off derived from central features of the policy process.

As long as the power of decision resided within the State Department, even inside ARA, nothing

¹¹I am grateful to Luigi Einaudi for comments on this point and for the following example: Arthur Schlesinger attributes the decision made by the Peruvian junta in 1962 to hold elections the next year to the breaking of diplomatic relations by the U.S. following the military coup. *A Thousand Days: John F. Kennedy in the White House* (Boston: Houghton Mifflin, 1965), p. 788.

forced a decision between the two objectives. Quite the contrary, there were positive inducements to pursue both. The natural inclination of the Department was, if not to assist development and social change in Peru, at least to do everything it could to promote "good" bilateral relations with Peru. On the other hand, there was little constituency outside government or even elsewhere within government supporting "Peruvian" objectives, while there were powerful forces backing attention to the desires of the company. Not only were company executives in constant touch with the Department, but, more important, the Department feared Congressional retaliation—either in the form of Hickenlooper Amendment-type restrictions on government flexibility or threats to the passage of the aid bill—if the company were not supported with sufficient vigor.

More generally, there was nothing in the decision process which produced a rich set of alternatives or forced hard choices among them, nor was there a means of structuring a decision in a way which made it less vulnerable to the pressures of the company (pressures expressed most forcefully through Congress). Those results derived from two general features of policymaking toward Latin America: the region was of low salience to high political officials in the government, and there was little perceived "security" threat emanating from the hemisphere and thus little Defense Department involvement in policy making. The name of the game for ARA was containment, keeping the lid on, avoiding "crises." ARA officials were reluctant to press issues on busy superiors and those issues seldom were pushed upward by interagency conflict.

What Effect Did Organizational Factors Have on Information Collection and Assessment?

Political reporting and assessment during the IPC case was imprecise and unsystematic. Searching questions about the Peruvian politics of IPC were neither asked by officials in Washington nor answered precisely by their colleagues in Lima. Both defects seem characteristic of customary State Department procedures. Reporting tended to reinforce the tendency of U.S. officials to underestimate Belaúnde's political problem with IPC and overstate U.S. leverage over Peru. Nor do second-hand accounts suggest that reporting through intelligence channels was better.

What Effect Did Organizational Factors Have on Implementation?

Implementation, in the strict sense of the word, was effective in the IPC case. No one sabotaged the

embargo. Yet there remains the issue of why the Department became so little involved in the details of the negotiations between Peru and IPC when it so desired a successful agreement. The answer seems to be the American tradition of arm's length in business/government dealings, a tradition perhaps all the stronger in an old-line department like State.

What Was the Effect of Groups Outside the Executive Branch?

Business groups and, especially, Congress influenced U.S. decision making to a great extent, as noted previously.

What Were the Effects of Government Personnel Systems?

The most obvious effect was that on political reporting and assessment. Defects seem directly related to procedures and the structure of incentives in the foreign service.

IV. Performance of Alternative Organizational Arrangements

More reasoned American policies in 1963-66 could only have emerged from decision processes in which a broader conception of U.S. interests could have been applied. It is not easy to imagine how such processes could have been fashioned. It might have been useful to have a non-government advisory panel to the Secretary of State or to ARA, one composed of citizens from various walks of life, which could have been called upon to render a judgment on the IPC case and suggest policies. The advice of such a group would not, of course, have been binding on anyone, and its intervention alone probably would have not produced a significantly different result. It might, however, have made the State Department less timid about becoming involved in the merits of the case and less inclined to focus on the legal status of the company. The group's judgments might have assisted the Department in casting the case in light of more general U.S.-Peruvian relations, demonstrating that there were American interests in Peru more serious than a single oil company. That might have laid a basis for persuading Congress that nothing was served by holding policy toward Peru hostage against fears of expropriation elsewhere in the hemisphere.

The contrast between 1963-66 and 1969 is instructive. When the Nixon Administration took office in 1969, it was confronted immediately with decisions about policy toward Peru. A military coup had toppled Belaúnde in October 1968, and IPC

had been expropriated. The expropriation seemed to fall directly within the language of the Hickenlooper Amendment. A decision had to be taken about whether or not to invoke the Amendment (or even how to avoid doing so). The issue was tabbed as one to be dealt with by the new National Security Council machinery. National Security Study Memorandum (NSSM) 18, of February 1969, called for an assessment, and a round of interagency discussions began.¹² The final study, completed in late March, made a strong case against applying the Amendment: doing so was judged unlikely to provide any assistance to IPC, while it might push the Peruvian government further to the left and surely would damage U.S. relations with other Latin American countries.

The President opted first to postpone and then to shelve indefinitely the application of the Amendment (although those decisions, like the end of the embargo in 1966, did not mean that the aid spigot was turned on, far from it). By my reading of events and by the assessments of participants, the formal NSC procedure for elevating Peru to Presidential attention was crucial to producing the decisions not to invoke Hickenlooper. The structure enabled the government to undertake a systematic study of the issues, *for the first time*, to frame options other than the most obvious, and to put both analysis and alternatives before the President in time to permit reasoned decisions. Of course much had changed between 1963 and 1969, and it is true that President Johnson seemed to support the embargo policy. But, even in 1969, the State Department would, I believe, have applied the Amendment had it been delegated decision responsibility. Not that it necessarily wanted to do so. Rather it would not have felt able, alone, to negate the explicit legislative intent of Congress.

V. IPC: General Concerns to Which Organizational Arrangements Are Relevant

Several organizational concerns run through the IPC case; two of these seem typical of the handling of "routine" issues in general, while the other two obtain in U.S. foreign policy making as a whole.

Distribution of Interests in the Decision Process

This was *the* problem in the IPC case. Decision-making arenas to which "routine" issues are deputed (or relegated) may not contain an ade-

¹²This account draws on Einhorn, cited above, chapter three.

quate representation of American interests, either because de-centralization permits a single department to manage an issue in accord with *its* sense of primary mission or, as in the IPC case, because the process concedes primary influence to certain governmental or non-governmental interests.

Government Role in Investment Disputes

The injunction from the IPC case is a non-intuitive one: the government should become more involved in investment disputes, not less, and should do so early. But that is not the full guidance. The government involvement should be based on a general approach, not merely occur case-by-case. For example, the IPC case should have been seen not only in the light of bilateral relations but within the long-term trend of foreign investment in Latin America to move (or be pushed) out of natural resources.

Foreign Assessment and Political Reporting

This is a general problem in American policy making. The tasks are constructing mechanisms which will link reporters in the field to the needs of ongoing deliberations in Washington and which will provide incentives for reporters to analyze information, not merely regurgitate it, and to make specific predictions. None of these tasks is easy.

Role of Congress

Another general issue. Congress was central to policy making in the IPC as it seems likely to be with respect to many "routine" issues, but its influence was less than constructive. The situation in Congress mirrored that in the Executive: because few cared about expropriation all that much, the few who did came to possess disproportionate influence. Again, it is not easy to conceive of procedural remedies.

ANNEX

List of Persons Interviewed

The following is by no means a complete list of all the people I have interviewed in the course of work on the IPC case, rather it includes only the conversations which were most directly relevant to the preparation of this study.

Fernando Belaunde Terry, former President of Peru.

Emilio Collado, Executive Vice-President, Exxon Corporation.

William Dentzer, former Director, U.S.A.I.D./Peru.

Eduardo Elejalde Vargas, former Assistant General Manager, International Petroleum Company.

David Falk, former Legal Officer, U.S.A.I.D./Peru.

Lincoln Gordon, former Assistant Secretary of State for Inter-American Affairs.

John Wesley Jones, former U.S. Ambassador to Peru.

Carlos Loret de Mola, former President, Peruvian state oil company.

Edwin Martin, former Assistant Secretary of State for Inter-American Affairs.

Wayne Morse, former U.S. Senator from Oregon.

John K. Oldfield, former General Counsel, Esso Inter-America, Inc.

Covey T. Oliver, former Assistant Secretary of State for Inter-American Affairs.

Donald R. Palmer, former Deputy Assistant Secretary of State for Inter-American Affairs.

General Alfredo Rodriguez M., former Chief of Staff, Peruvian Army.

William D. Rogers, former Deputy U.S. Coordinator of the Alliance for Progress.

Augusto Zimmerman Zavala, former editorial page editor, *El Comercio*, and former chief information officer, government of Peru.

United States Policy and Policy-Making in the 200-Mile Fisheries Dispute with Ecuador and Peru

Edward Gonzalez
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INTRODUCTION

This study examines the 200-mile fisheries dispute with Ecuador and Peru from several different perspectives. In *Part I: The Evolution of the Dispute, 1947-1972*, it analyzes the juridical basis of the conflict, the enforcement aspect which intensified the conflict, and the enactment of retaliatory legislation by Congress which posed dilemmas for the State Department. In *Part II: Players, Issues and Policy Conflicts*, the study focuses in on the bureaucratic in-fighting and policy divisions among the Departments of State and Defense, Congress, and the American Tunaboat Association as major players in the policymaking process in the early 1970s. In *Part III: The Informal Talks With Ecuador, 1971-1972*, the study traces how the principal players and policymaking process interacted in a major attempt by State to resolve the seizure problem in 1972. And in *Part IV: Policy Conclusions*, the study reexamines the fisheries dispute in light of four questions which seek to determine the extent to which the very character of the dispute itself and/or the organizational interests and processes involved in the formulation of U.S. policy prevented a settlement. Part IV then concludes with an organizational recommendation calling for the formation of a special problem-solving task force for taking up those types of foreign policy issues such as the fisheries dispute which cut across organizational interests and deadlock the foreign policymaking bureaucracy within the Executive Branch.

Part I: The Evolution of the Dispute, 1947-1972

In the Santiago Declaration of 1952, following earlier unilateral proclamations, Chile, Ecuador and Peru jointly asserted their "sovereignty" and "sole jurisdiction" over their respective waters to a minimum distance of 200 miles. Ever since, the United States has been locked into a juridical dispute with the three CEP countries, refusing to recognize their claims to a 200-mile maritime zone which it perceived as contrary to international law, and as a threat to U.S. naval, maritime and fishing interests. The CEP countries, for their part, saw their claims to a 200-mile zone as a legitimate exercise of their sovereignty, which included the right to conserve resources needed for the well-being and development of their societies. Hence, efforts to resolve this juridical dispute repeatedly broke down.

In the meantime, the technological transformation of the U.S. tuna fleet by the early 1960's brought the United States into direct conflict with Ecuador and Peru: U.S. flag vessels were now increasingly fishing in the 200-mile zone, and Ecuador and Peru moved to enforce their jurisdiction. As a result, U.S. tunaboats were seized, and forced to pay fines, licenses and registration fees. The tempo of seizures increased beginning in 1966, and Congress responded by enacting legislation to compensate U.S. tuna fishermen and to authorize the withholding of economic and military sales from Ecuador and Peru. The State Department avoided doing so, however, in order not to exacerbate the conflict and endanger still other U.S. inter-

ests. Not until 1969 were formal sanctions applied with the ban on military sales to Ecuador and Peru, only to be lifted to facilitate multilateral negotiations with the CEP countries. A sudden surge of seizures by Ecuador at the outset of 1971 led to the reimposition of the military sales ban and a freeze on aid funds. Ecuador retaliated by bringing charges against the United States in the O.A.S., by expelling U.S. military advisors, and by continuing the seizures through 1971 and 1972. For its part, Congress reacted to the seizures, and to State's handling of the dispute, by finally passing H.R. 7117 on October 10, 1972, making mandatory the deduction of fines and other seizure costs from foreign aid funds. Shortly afterwards, the legislation was signed by the President on October 26, 1972. The Ecuadorian government thereupon responded in early January 1973: it rejected a tentative understanding for ending the seizures discussed informally with the State Department during 1972, and it demanded the repeal of all sanction legislation as a condition for further talks.

The fisheries dispute thus remains an intractable problem in current U.S. foreign policy, as well as a major source of friction in U.S. relations with Ecuador and Peru. It is also a foreign policy issue that is entangled with a host of U.S. foreign policy interests and major players in the policymaking process. Fundamentally, it is an issue that involves the assertion and denial of "sovereignty" by nations who, were it not for the fact that the disputed claims involve the open seas, might otherwise go to war. Yet, precisely because the open seas are involved, the assertion and denial of jurisdictional claims involve high stakes—among them, mobility on the high seas, access to fishing grounds and other ocean resources, and, ultimately, the very structure of international law of the sea. Thus, as Ecuador and Peru enforced their jurisdiction, the U.S. Government resisted by supporting the privately owned and operated U.S. tuna fleet, using the latter as an instrument by which to protect U.S. naval, maritime, and fisheries interests.

The initial external conflict was also internalized as key foreign policy roles were played by the tuna industry and by a Congress compelled to protect U.S. flag vessels. Additionally, as relations with Ecuador and Peru steadily deteriorated due to the seizure-retaliatory cycle, the conflict became multifaceted and increasingly difficult to resolve: virtually any solution conflicted with the interests and priorities of major players in the U.S. Government. Thus, Congress was intent on deterring seizures in a manner that State feared would jeopardize U.S. diplomatic interests; State itself was torn between protecting U.S. fisheries and maritime interests and the promotion of other key interests in Latin America; and Defense was determined to block any

juridical solution by State that might impair U.S. strategic interests regarding law of the sea matters.

Part II: Players, Issues, and Policy Conflicts

This part of the study presents a close-in perspective, or analytic profile, of four of the principal institutional players in and outside the government that were responsible for or influential in the making of U.S. policies in the fisheries dispute during the early 1970's: The Departments of State and Defense, Congress, and the American Tunaboat Association. Because of its central role in formulating these policies, however, the Department of State is examined in the greatest detail. The profile that emerges is one of key players often being deeply divided within as well as between themselves, of the policymaking process being adversary if not conflictual in nature, and of the outcome of policy often being the result of tactical compromises and alliances among different players. In Part II, therefore, the policymaking process is seen as shaped by the pulling and hauling of divergent players within and outside the U.S. Government, with the policy positions of the different players within the Executive Branch being determined largely by their respective organizational interests and missions.

Within the Executive Branch there existed two major divisions, one within the State Department and the other between State and Defense. The principal internal division within State was between (1) Ambassador Donald L. McKernan who headed the Office of the Special Assistant to the Secretary for Fisheries and Wildlife (S/FW); and (2) the Bureau of Inter-American Affairs (ARA) and its Office for Ecuadorian and Peruvian Affairs. Because of their organizational mandate, McKernan and S/FW were directly concerned with the fisheries dispute with Ecuador and Peru, whereas the Bureau, in contrast, had to tend to a broader range of interests in Latin America, of which the fisheries dispute was only one. Within State, McKernan and S/FW thus played a more central role than did ARA in formulating U.S. policies regarding the fisheries seizure problem. In this regard, McKernan at times received the internal support of the Ocean Affairs section of the Legal Office within State owing to the latter's organizational responsibility for safeguarding the U.S. juridical position on maritime matters. Additionally, McKernan generally was able to obtain external support from Congress and the tuna industry, both of whom served as key allies for S/FW in its intradepartmental disputes with ARA.

The principal points of policy disagreement between S/FW and ARA involved policy priorities

and the question of sanctions. McKernan and S/FW assigned the highest priority to resolving the fisheries dispute with Ecuador and Peru, insisting that normalized bilateral relations with the two countries was contingent upon the cessation of seizures of U.S. flag vessels. In contrast, the Bureau's first order of priorities lay in improved relations with Ecuador and Peru, with the fisheries dispute and the seizure problem assuming criticality only insofar as these issues undermined normalized relations. In turn, McKernan and S/FW were considerably more disposed toward the use of sanctions in the form of withholding military and economic aid in order to prod Ecuador and Peru into negotiating a solution of the fisheries dispute, whereas ARA saw such sanctions endangering a whole range of U.S. diplomatic, economic, and military interests in Ecuador and Peru, as well as counterproductive to the fisheries problem. Despite their policy differences, however, both S/FW and ARA were committed to a negotiated solution of the fisheries dispute and seizure problem, and both coalesced against the Department of Defense.

The other division, therefore, existed at the interagency level. Here, Defense sought to block State's efforts to reach a juridical solution of the fisheries dispute for fear that McKernan might bargain off key strategic issues affecting law of the sea matters, most importantly, freedom of transit through and over international straits. A major element in the Defense Department's strategy against S/FW was its theory of "creeping jurisdiction" which held that formulas which granted coastal state limited jurisdiction over extended maritime zones by attempting to exclude control of navigation and overflights from that jurisdiction would inevitably lead to the coastal state expanding its jurisdiction into full claims of sovereignty. In turn, the Defense Department's overriding concern with law-of-the-sea (LOS) questions not only gave Defense a unity lacking in State, but also it deprived the latter of a strong ally in ISA given its interest in promoting good working relations with the Latin-American military.

While neither Congress nor the American Tuna-boat Association were directly involved in the interagency dispute, both were of critical importance to the formulation of policy on the seizure problem in particular. Congress as a whole had to be responsive to domestic constituencies, with the tuna industry and its allies in Southern California being highly vocal in pressing for action to end the seizure problem. Additionally, individuals in Congress such as Congressmen Pelley and Dingle, and Senator Magnuson, and such influential committees as the House Committee on Merchant Marine and Fisheries and its Subcommittee on Fisheries and Wildlife Conservation, were committed on philosophical or other grounds to upholding the rights

of U.S. flag vessels on the high seas. Incensed by Ecuador's seizures against U.S. flag vessels and no longer willing to grant State additional time to find a negotiated solution, Congress thus moved ahead to make mandatory the application of foreign aid sanctions as prescribed by H.R.7117.

For its part, the American Tunaboat Association (ATA) possessed inordinate political leverage owing to its ability to capitalize upon the issue of Ecuadorian and Peruvian seizures of U.S. flag vessels. Adding to its leverage was also the fact that the U.S. tuna fleet served as an instrument of U.S. maritime policy, with Congress and S/FW in State reciprocating by securing the passage of protective legislation—in Amendments to the Fishermen's Protective Act—to blunt the impact of seizures on the U.S. tuna fishing industry. Meanwhile, the ATA had been a major advocate of sanction legislation as seen by its support for H.R.7117. Nevertheless, while the ATA's interests lay in the cessation of seizures, the type of juridical solution favored by McKernan in S/FW probably would have proven unacceptable to the tuna fishermen. McKernan leaned toward disguised licensing agreements as a means of resolving the seizure problem which could set legal precedents to be emulated by still other coastal states to the detriment of the tuna fleet. In Peru, moreover, the ATA had already begun working out a tacit understanding with Peruvian authorities whereby seized U.S. tuna vessels were promptly released upon payment of fines, licenses, and registration fees, thereby reducing the time lost in seizure incidents and allowing the boats to return to the fishing area within 24 or 48 hours, while the tunaboat owners would subsequently be reimbursed for the seizure costs by the U.S. Government.

It was against this background of bureaucratic in-fighting, policy divisions, and Congressional and tuna industry reaction, that State moved to try to resolve the Ecuadorian seizure problem beginning in late 1971. The principal players would remain the same, with McKernan, the Bureau, and Defense once again playing their central roles, but with the National Security Council now interjecting itself initially as a referee in the interagency dispute.

Part III: The Informal Talks with Ecuador, 1971-1972

Following the onslaught of seizures by Ecuador at the outset of 1971, State's overriding objective became that of working out at least an interim solution to the seizure problem. In this regard, McKernan, S/FW, and the Bureau gradually concentrated their efforts on Ecuador rather than on Peru. Once having chosen Ecuador as their target, four sepa-

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rate but related policy problems still confronted the officials in State.

First, most pressing of all, there was the urgent need to end the seizures themselves which were now out of control and creating still other problems for State. Because nationalist sentiment ran high in Ecuador as well as Peru any negotiations would have to be conducted informally and produce an agreement that could be reconciled with their claims to a 200-mile maritime zone. A second, derivative problem involved the need to reverse the deterioration in U.S.-bilateral relations with Ecuador, and the first step toward improving bilateral relations lay in resolving the seizure problem. A third problem area involved the growing retaliatory mood in Congress that was fueled by the rising incidence of seizures, with H.R.7117 being introduced in early April 1971. Again, the resolution of the seizure problem became the principal route for heading off Congressional passage of punitive legislation.

The fourth problem area stemmed from the LOS considerations which had already been given prominence by the new oceans policy announced by President Nixon on May 23, 1970, and by the creation of the "Inter-Agency Task Force on the Law of the Sea," both of which were aimed at the U.N. Conference scheduled to open formally in 1973. At the U.N. Commission on the Peaceful Uses of Seabeds in August 1971, the United States proposed a 12-mile territorial sea with guaranteed freedom of transit through and over 116 international straits that would otherwise fall within coastal state jurisdiction over the 12-mile territorial sea. The United States also proposed preferential fishing rights for the coastal state beyond the new 12-mile territorial sea, but with these rights limited to species of fish that remained adjacent to the coast or were anadromous (i.e., living in the sea but spawning in fresh water), thereby excluding the highly migratory tuna from the preferential fishing rights to be granted the coastal state. While these proposals provided State with greater flexibility in negotiating with Ecuador and Peru, the U.S. fisheries stance sought to *avoid the expansion of coastal state jurisdiction over an extended area of the sea* since the White House believed that such jurisdiction would inevitably encroach upon freedom of navigation.

In turn, the high priority attached by the White House and its staff to LOS questions greatly strengthened the hand of Defense in the inter-agency dispute, enhancing the latter's ability to restrict State's flexibility in negotiations with Ecuador and Peru. President Nixon, Dr. Kissinger as then Special Advisor to the President on National Security Affairs, and the NSC which Kissinger directed were all keenly attuned to the military and strategic ramifications of the forthcoming LOS negotiations. They were particularly concerned

with preserving freedom of mobility of U.S. warships on the high seas by guaranteeing their passage through international straits. Additionally, Defense enjoyed greater accessibility to the White House than did State due to Secretary of Defense Melvin Laird's greater influence with President Nixon and Dr. Kissinger. Thus, while State viewed a settlement of the seizure problem as urgent, with improved bilateral relations and the heading-off of Congressional reaction being contingent upon such a settlement, the high-level priority attached to LOS matters loomed as a major obstacle to negotiations with Ecuador.

The policymaking and negotiating process with Ecuador went through three distinct phases from Fall, 1971, through December, 1972. Phase I, which lasted through January, 1972, was characterized by the predominance of the White House and NSC in the formulation and implementation of the policy: State responded to the policy priorities set forth by the NSC in its various memorandums, and State complied with the negotiating instructions approved by Kissinger and the President. These included securing Ecuador's agreement on key LOS matters in exchange for U.S. concessions on licensing. The inability to make any headway with Ecuador on the terms set by the White House, however, enabled State to seize the initiative after January 1972, and to exclude LOS issues from the fisheries negotiations.

Phase II, which lasted until around June 1972, was thus characterized by the relative ascendancy of State over Defense, and by State exercising considerable autonomy from the White House and NSC in working out a formula for an interim solution of the fisheries dispute with Ecuador. State's position was enhanced by McKernan's success in negotiating a shrimp agreement with Brazil in March, with the Brazilian agreement in turn providing a viable negotiating formula for use with Ecuador. In the meantime, however, sharp internal differences emerged within State between ARA and S/FW over how to proceed with Ecuador. To best promote the whole range of U.S. interests in Ecuador, ARA recommended that the starting point for negotiations lay in the U.S. Government lifting the suspension on military sales to Ecuador and releasing AID loans. McKernan argued against ARA's position, maintaining that a solution of the fisheries dispute was the *sine qua non* of improved relations, and that lifting the military sales ban should come only *after* negotiations with Ecuador showed prospects of a solution to the seizure problem. In the end, partly because of his strengthened stature resulting from the Brazilian agreement, McKernan's position was basically adopted by State by mid-May, and subsequently approved by the NSC.

Phase III spans the informal talks that McKernan undertook with the Ecuadorian Foreign Ministry

between early July and December, 1972. The talks produced a tentative understanding which, like the Brazilian shrimp agreement, consisted essentially of a disguised licensing agreement. This arrangement for ending the seizure problem was worked out by mid-August 1972. But the Defense Department expressed strong opposition, and the NSC and the White House delayed some two months in approving the understanding. Finally, President Nixon essentially gave his approval on October 27th, the day after he had signed H.R. 7117 into law despite State and other Executive agencies recommending that he veto the bill. The net effect, therefore, was that the presidential approval of H.R. 7117 ultimately contributed to Ecuador's rejection in January, 1973, of the tentative understanding, and to demands for the repeal of all U.S. sanction legislation. In the final analysis, responsibility for the collapse of the U.S.-Ecuadorian tentative understanding lay not in State, Congress, nor even in Defense, but in the NSC and White House itself.

Part IV: Policy Conclusions

The concluding part of the study reexamines the fisheries dispute on the basis of four questions: (1) What were the fundamental issues in the dispute and were they intrinsically of such a character as to impede a resolution? (2) To what extent, if any, did the organizational missions, interests, and functions of the relevant players impair the perception of what issues and interests were at stake? (3) Was the organization of the policy-making process such as to allow for the proper identification and representation of U.S. foreign policy interests? (4) Would a different organizational model for policy-making have made a significant difference in the outcome of policy regarding the dispute?

The Issues at Stake

The fisheries dispute fundamentally involved a conflict over the assertion and exercise of "sovereignty" and "sole jurisdiction" by the CEP countries over a 200-mile zone considered by the United States and most countries to be part of the high seas. Because U.S. strategic-maritime as well as fisheries interests were at stake in the CEP claims, the U.S. Government was compelled to deny and actively resist these claims, although by means other than armed forces. Hence, the conflict was fought in the juridical arena; and, as Ecuador and Peru moved to enforce their claims, the United States responded by supporting the tuna fleet and by eventually imposing sanctions on the two countries in retaliation for their seizure of U.S. flag vessels. The escalating conflict, in turn, was symptomatic of the basic issues at stake; thus,

throughout the history of the dispute, the United States was prepared to jeopardize relations with Ecuador and Peru for the sake of its strategic-maritime and fisheries interests, particularly the former, as evidenced by the 1971-1972 informal talks with Ecuador.

Repeatedly, then, U.S. attempts to resolve the fisheries dispute foundered owing to the very nature of the conflict, that is, the question of claims of "sovereignty" and "sole jurisdiction" could not easily be side-stepped by whatever formula was conceived. Hence, the interim solution was strenuously opposed by Defense, and ultimately modified by the NSC and White House, because its disguised licensing provision originally conveyed U.S. implicit recognition of Ecuador's jurisdictional authority over a 200-mile maritime zone. The Ecuadorians were also equally uneasy about the proposed interim solution because it failed to explicitly recognize Ecuador's "sovereignty" over the maritime zone.

Especially from the early 1960's onwards, therefore, the fisheries dispute posed an increasingly intractable foreign policy problem that would not yield easily to solution. The dispute was fundamentally intractable because, owing to the basic conflict of sovereignty, it could not be transformed into a variable-sum game despite various U.S. proposals which sought to do so. The resolution of the conflict, in other words, depended upon major concessions by one side or the other which neither the United States nor the CEP countries were prepared to grant. For the former, the costs of resolution required juridical concessions regarding coastal state jurisdiction over a 200-mile zone which, even if initially confined to fisheries, might subsequently be extended to affect freedom of navigation and overflight, and which could establish precedents for restructuring the law of the sea to the detriment of the United States.¹ For Ecuador and Peru, the resolution of the conflict would have been no less costly because it would entail giving up or at least greatly modifying the claims to "sovereignty" which no Ecuadorian or Peruvian government could risk owing to the politicization of the 200-mile issue within their countries.

While the dispute was inevitable, the question still remains as to whether the dispute was optimally managed by the U.S. Government so as to *minimize the costs of conflict*. In this regard, there were various other U.S. interests at play which also had to be considered in coping with the fisheries dispute, even though strategic-maritime fisheries interests remained at the heart of the dispute. The

¹These concessions were not involved in the Brazilian agreement because (a) shrimp are a sedentary coastal species, (b) the agreement did not coincide with Brazil's 200-mile territorial sea claim, and (c) the agreement specifically disclaimed any prejudice to the LOS position of both parties.

way in which the entire spectrum of U.S. interests were balanced off, in turn, was a function of their perception and advocacy by the various governmental agencies involved in formulating U.S. policy on the fisheries dispute.

Organizational Missions and Perceptions of U.S. Interests

The perception of what interests and issues were at stake in the fisheries dispute was closely tied to the organizational missions, interests, and functions of the different agencies and branches of government involved in policymaking. Thus, the promotion of *harmonious bilateral relations* was of utmost concern to ARA, the promotion of *fisheries interests* was of highest priority to S/FW, the furtherance of the U.S. *juridical position* was the charge of the Office of the Legal Advisor in State, the protection of *U.S. flag vessels* was of paramount importance to Congress, the maintenance of hemispheric *military ties* was the main preoccupation of ISA, the advancement of *strategic and security objectives* was of overriding priority for Defense, and the promotion of the President's *oceans policy* was the major consideration of the NSC. As a result, virtually the entire gamut of U.S. interests affected by the dispute had their advocates or spokesmen among the most important Executive agencies involved in formulating policy, as well as in Congress.

Such organizational interest fragmentation within the Executive Branch, however, produced a sectarianism among those offices or agencies involved in the fisheries dispute which invariably led to a narrowness of vision in their respective policy positions. This is not to say that U.S. interests were not identified or articulated. Rather, the argument is that each organizational player promoted its own interests and priorities to the detriment of others. The end result was that the policymaking process generally worked at cross-purposes, with U.S. policies neither being directed effectively at overcoming the basic conflict over sovereignty which involved strategic-maritime-fisheries interests, nor at minimizing the costs of this ongoing conflict.

For example, ARA's primary operational objective was to repair the damage to bilateral relations caused by the fisheries dispute. But this objective stemmed from ARA's organizational commitment to harmonious inter-American relations, and, thus, it was based on a misperception in that good bilateral relations with Ecuador and Peru were *not* the principal issues at stake in the dispute. Disturbed by conflictual relations in inter-American affairs, therefore, the Bureau was inclined to subordinate the fundamental interests at stake in the dispute to its goal of normalizing relations with Ecuador and Peru.

In contrast, S/FW focused exclusively on the

fisheries aspect of the dispute. In this case, the organizational mission was all the more compelling because, in addition to being charged formally with the protection of U.S. fisheries interests, S/FW had a special domestic constituency in the distant water fishing fleet in which the American Tunaboat Association and its allies played prominent roles. To fulfill its mission and satisfy its constituency, therefore, S/FW took the lead in searching for a solution of the fisheries dispute which would end the seizure problem. But in its efforts to arrest the seizure incidents, S/FW appeared willing to make juridical concessions in the proposed Ecuadorian agreement which might have undermined the LOS position of the United States, including the long-run interests of the tuna fishermen.

Of all the agencies involved, however, the Defense Department demonstrated a singular purposefulness of mission and, correspondingly, an unmatched narrowness of vision. Defense focused exclusively on the strategic and security implications of the fisheries dispute, going so far as to insist upon obtaining LOS concessions from Ecuador, and it was prepared to sacrifice the fisheries interests in the dispute if it would advance LOS priorities. Whether its policy recommendations emanated from the Joint Chiefs of Staff, the Office of Ocean Affairs, or the Office of the General Counsel, Defense also consistently blocked State's and specifically S/FW's efforts to find a solution to the fisheries dispute on the basis that each solution would open the way for "creeping jurisdiction." Hence, though keenly sensitive to many of the fundamental issues at stake in the fisheries dispute, Defense did little but to resist solutions of the conflict, as well as to undermine State's efforts to minimize some of the costs of the conflict.

For its part, the NSC also tended to view the fisheries problem through the lens of its national security mission. As exemplified by its instructions in late 1971 and early 1972, moreover, the NSC saw negotiations with Ecuador less as an opportunity to resolve the basic dispute than as a vehicle for obtaining specific LOS *quid pro quos* for the President's oceans policy. Thus, each office or agency involved in policy formulation, including the NSC, had its particular set of interests to promote which often were tangential or counter to the amelioration as well as solution of the fisheries conflict.²

²Notwithstanding the apparent ineffectiveness of U.S. policy on the fisheries dispute, however, the *global* aspects of this policy were relatively successful in terms of promoting the strategic-maritime, and fisheries interests of the United States. In 1960, for instance, the U.S. Government failed by only one vote in obtaining international agreement on a 6-mile territorial sea and a 6-mile contiguous sea. And in mid-1974, twenty-two years after the Santiago Declaration, the CEP countries remained relatively isolated in that there were only 9 out of 120 countries that claimed a 200-mile territorial sea or maritime zone.

The Policy Process and the Identification of U.S. Interests

From the foregoing, it is clear that the very organizational-interest fragmentation that exists among the offices and agencies involved in the formulation of policy allowed for both the identification and representation of various interests at stake in the dispute. In addition, the policymaking process often took on the character of a genuine *adversary system* which functioned within as well as between agencies in the Executive Branch, and which made for an even greater articulation of U.S. policy interests.

Thus, ARA, S/FW, and the Office of the Legal Advisor all represented different policy interests and tendencies within State and they often engaged in fierce intra-agency debates, as occurred, for example, in the conflict between S/FW and ARA (supported by the Legal Office and ISA) prior to mid-May 1972 when these two offices were at odds as to how best to proceed with Ecuador. The adversary-type policy conflict would then be repeated at the interagency level between State and Defense, with the NSC sometimes serving as final judge but at times also inserting its own policy priorities. Strengthening the adversary character of the policy process was the fact that the players were well matched: no one player overwhelmed any of the others as all possessed individuals of high intellect as well as professional competence; and whereas Defense might often have the last word with the NSC by resorting to LOS and national security arguments, State also had its resources in S/FW's ties to Congress and the tuna industry, and, to a lesser extent, in ARA's Latin-American constituency.

However, such a policymaking framework and process proved deficient in at least three related respects. First, a highly fragmented and pluralistic policymaking organization that reflects a diversity of interests and becomes adversary in its operation is not likely to be very efficient at problem solving. Thus, as one observer has pointed out, "... the roots of poor coordination [in U.S. foreign policy towards Latin America] lie in the pluralism and fragmentation of the U.S. Government, whose power is to a significant degree dispersed among a number of agencies and individual decisionmakers."³ As was evident in the fisheries dispute, different agencies and offices tended to pull in different directions, with the policy process ending in compromise and with policy outcomes being diluted, so that the

³Christopher Mitchell, "Dominance and Fragmentation in U.S.-Latin-American Policy," in Julio Cotler and Richard R. Fagen (eds.), *Latin America and the United States: The Changing Political Realities* (Stanford: Stanford University Press, 1974), p. 179.

U.S. government was neither effective in resolving the basic dispute nor in lessening the costs of conflict with Ecuador and Peru.

Second, an adversary-type procedure attracts those individuals who relish the "game of bureaucratic politics" for its own sake. This was particularly evident in the Department of Defense where the interagency dispute not only took the form of a debate, but also of using whatever tactics necessary to block State's policy recommendations, including insistence on imposing unreasonable conditions for negotiations with Ecuador.

Third, a policymaking structure that is composed of different units, each having its own organizational mission, tends to respond to a foreign policy problem in terms of the interests these units represent. That is, it is structurally difficult to identify and rank the foreign policy interests at stake independently of the organizational mindsets that characterize each office and agency involved in formulating policy. As has been seen, this was particularly true of the fisheries problem which cut across a wide spectrum of U.S. foreign policy interests and which thus involved several offices and agencies in the Executive Branch, as well as Congress, in policy formulation. The sectarianism that inevitably characterized the pulling and hauling in the policymaking process was, therefore, not conducive to the proper identification and ranking of the interests at stake in the dispute, much less to problem solving with respect to either the basic conflict itself or the lessening of the costs involved in the dispute.

A Different Organizational Model and Policy Outcome

Would a different organizational model, therefore, have made a significant difference in the outcome of policy in the fisheries dispute? In the judgment of this author, probably not, for reasons that will be stated below. But this is not to say that organization and process did not affect policy outcomes; they did have an effect on policy, as has been discussed. Rather, the position taken here is that effectiveness of any changes in organization and process would have been limited owing to the type of foreign policy problem represented by the fisheries dispute.

First, the fundamental conflict of sovereignty which was at the heart of the dispute itself placed limits on policymaking outcomes which any organizational models have had to observe. In other words, the U.S. Government would only yield to a limited extent on questions of sovereignty and jurisdiction.

Second, the very pluralism of the American political system, with its many interests and channels of

articulation, would have inevitably meant that such relevant interest groups as the tuna fishermen would have made themselves heard. If S/FW had not been created, for example, its counterpart might well have emerged elsewhere in the Executive Branch, while the absence of an S/FW and a McKernan most surely would have led to an even more interventionist Congress.

Third, the policymaking process in the fisheries dispute did involve different foreign policymaking models. Thus, during Phase I of the Ecuadorian negotiations, the policy process was characterized by White House-NSC dominance in which the bureaucracy in State and Defense responded to NSDMs and NSSMs, but with the talks ending in failure due to White House-NSC insistence on obtaining unacceptable *quid pro quos* from Ecuador. In Phase II, State assumed greater autonomy in policymaking but there also occurred the reemergence of internal divisions, owing to differences in organizational missions and interests. And during Phase II and III, a *de facto* task force model operated within State that was made up of representatives from S/FW, ARA, and the Office of the Legal Advisor, but which in the end was unable to execute policy due to the NSC and White House.

And, finally, there were domestic political dimensions to the fisheries dispute which were not susceptible to organizational solutions and which could not be isolated from policy. This was evident in the growing role of Congress in influencing U.S. policy on the fisheries dispute, including the passage of H.R. 7117. It was further suggested in President Nixon's signing of H.R. 7117 and the issuance of the NSDM with an apparent eye to the 1972 elections.

Recommendation: Formation of a Specialized Task Force

Although changes in organization and process most likely would not have significantly altered the outcome of policy, it is, nevertheless, clear that organizational fragmentation and organizational interests greatly impeded effective policy formulation with respect to finding a solution to the dispute and minimizing the costs of conflict. The bureaucratic in-fighting and narrowness of vision in the policymaking process, moreover, was made virtually certain by the very complexity of the fisheries dispute, which cut across a variety of U.S. interests and which drew their bureaucratic spokesmen into the policy arena.

Hence, for cases such as the fisheries dispute, the organizational solution would appear to lie in (a) *divorcing individual key players from their respective organizations*, and (b) *appointing them to a special ad hoc task force that has the authority to examine, recommend, and*

*implement an approved solution for a specific foreign policy problem.*⁴ Such a proposed task force would differ from the Ad Hoc Advisory Group or the Law of the Sea Task Force, for example, in three important ways. First, membership in the task force would entail *full-time participation*, thereby requiring a leave of absence from the individual's normal agency which would amount to a special tour of duty. Second, the task force would focus on a specific foreign policy *problem or conflict* such as the fisheries dispute, rather than deal with general policy questions such as LOS issues. And, third, the task force would be given the responsibility and the necessary authority for resolving the problem, subject to presidential approval, within a designated time span—perhaps two years initially—with renewal of the life of the task force possible up to a maximum total of four or five years.

The major advantage of such a task force consists in recruiting a select group of policymakers and specialists who would no longer be locked in and committed to their respective bureaucratic organizations, who would nevertheless have access to bureaucratic resources and be accessible to interested parties, and who would be able to devote their full attention to resolving the designated problem. Such a task force might comprise only a select handful of individuals, drawn from the middle or upper ranks of the bureaucracies of different agencies, with perhaps a Congressional staff representative and an outside specialist to give the task force additional balance and perspective.

Whatever its size and composition, however, an incentive structure would have to be developed to ensure that the members of the task force would perform as desired. Thus, appointment to the task force would have to be viewed as a major asset rather than a liability in one's career following return to normal duty in the original agency. In turn, mechanisms would have to be devised to ensure against an organization penalizing a former task force member following his return to duty for a decision that might have gone against the agency's interests. Additionally, high rewards for contributing to the solution of a vexing foreign policy problem would have to be held out—such as presidential commendation, and especially acceleration in the promotion rate—as a means of maximizing incentives for problem solving.

There would be problems with such a task force, of course, such as lack of leverage with Congress and the President and possible conflicts with the latter over recommended solutions. Still, the type

⁴I wish to acknowledge appreciation to Mr. Leigh S. Ratiner for having initially suggested this recommendation in an interview on September 25, 1974.

of task force concept outlined might well be one way of utilizing some of the best talent in the bureaucracy while separating out organizational influences in order to improve policymaking in such problem areas as the fisheries dispute.

ANNEX

List of Individuals Interviewed

Richard Bloomfield, Director, Office of Policy Planning and Coordination, Bureau of Inter-American Affairs, Department of State.

Lt. Commander Frederick DeRocher, Member, Law of the Sea Task Force, Department of Defense.

Ned P. Everett, Counsel, Sub-Committee on Fisheries and Wildlife Conservation, of the Committee on Merchant Marine and Fisheries, U.S. House of Representatives.

Congressmen Dante Fascell, Chairman, Sub-Committee on Inter-American Affairs, of the Committee on Foreign Relations, U.S. House of Representatives.

August Felando, General Manager, American Tunaboat Association, San Diego, California.

David Keeney, Staff, Committee on Foreign Relations, U.S. Senate.

John Martin, Planning Officer, Office of Policy Plan-

ning and Coordination, Bureau of Inter-American Affairs, Department of State.

Oscar Mautua, Second Secretary, Embassy of Peru.

Donald L. McKernan, Director, Institute for Marine Studies, University of Washington, Seattle, Washington, formerly Ambassador and Special Assistant to the Secretary of State for Fisheries and Wildlife.

Bernard H. Oxman, Assistant Legal Advisor for Oceans, Environment and Scientific Affairs, Department of State.

David Quandt, International Security Agency, Department of Defense.

Leigh S. Ratiner, Department of Interior, formerly Attorney in the Office of the General Counsel, and Chairman of the Advisory Group on the Law of the Sea, Department of Defense.

Michael Samuels, Executive Assistant, Office of the Deputy Secretary, Department of State, and formerly Special Assistant to the Assistant Secretary for Congressional Relations, and Legislative Advisor to the Under-Secretary, Department of State.

Harry Shlaudeman, Deputy Assistant Secretary of State, Bureau of Inter-American Affairs, Department of State.

Will Van Campen, South West Fisheries Center, La Jolla, California, formerly with the Office of the Special Assistant to the Secretary of State for Fisheries and Wildlife.

Congressman Lionel Van Deerlin, U.S. House of Representatives.

U.S. Sugar Politics and Latin America: Asymmetries in Input and Impact

Robert A. Pastor*
December 1974

"Tlatelolco" is more than just an unpronounceable resort outside of Mexico City. To Secretary of State Henry Kissinger and the Latin American Foreign Ministers who met there in February, 1974, it symbolizes the beginning of "a new spirit" in inter-American relations. Less than four months after Secretary Kissinger pledged U.S. government support for Latin American trade aspirations at Tlatelolco, however, an Act which would have extended the U.S. Sugar Program, which guaranteed twenty Latin American nations a preferential market in the U.S., was defeated in the House of Representatives by a vote of 209-175. One of the reasons for the defeat was the ambivalence and equivocation of the Administration.

How can this ambivalence be explained in the light of the unambiguous policy on trade matters enunciated by the Secretary of State? How did the new policy stated at "Tlatelolco" weigh in the debate within the U.S. on whether the sugar program should be extended?

The decision-making process involved in the renewal of the U.S. Sugar Program is not unique. Legislation on countervailing duties and the generalized system of preferences; marketing orders or

import limitations on crops like tomatoes, mushrooms, and strawberries; export limitations on scrap metal; or legislation or treaties on commodities like coffee, cocoa, and tin—all these issues share with the sugar issue the following characteristics: (1) a large impact on a relatively small group (in this case, the sugar industry); (2) a small impact on a large group (the general public); (3) is a routine issue, which is addressed, defined, and implemented according to standard operating procedures at the lower and middle levels of the bureaucracy; (4) ultimate resolution lies in Congress, subject of course to Presidential veto; and (5) *foreigners have a marginal input into a decision which has a significant impact on them.*

Therefore, an understanding of the causes, consequences, and process by which decisions were made on the renewal of the Sugar Program will provide us with a basis for predicting outcomes on several other foreign economic policy issues, for drawing conclusions on the course of inter-American relations, and for presenting recommendations for organizational change, which will seek to minimize the discrepancy between policy and outcome.

In describing and analyzing such a decision, one has a variety of conceptual frameworks from which to choose. One could focus, for example, (1) on the politics between Executive bureaus; (2) on the government as a unitary actor rationally choosing the best program; (3) on specialized interest groups "penetrating" the government, or (4) on the relationship between the Legislative and Executive Branches.¹ To explain the renewal of the Sugar Program, one wants a framework which will identify

*This is a shortened and revised version of an original paper prepared for the Commission in December, 1974. This study is based on published, unpublished, and classified government sources and on interviews with over thirty people—all participants though to different degrees in the intricate governmental and non-governmental decision-making process in the renewal of the sugar program. Due to the use of classified material and to the confidentiality of the interviews, I have been unable at times to cite my sources. For this study, I am extremely grateful to the financial support furnished me by the Commission on the Organization of the Government for the Conduct of Foreign Policy and to the inspiration of this project's Director, Dr. Abraham F. Lowenthal. I take complete responsibility for the analysis and conclusion of the study, but I want to thank the following people for comments on earlier drafts: William Bacchus, Stephen Krasner, Joseph S. Nye, Jr., Paul Pilkaskas, Charles Reynolds, Robert Stansberry, Peter Szanton, and H. Francis Wanning.

¹For a description and analysis of the "rational actor" and "bureaucratic politics" models, see, e.g., Graham Allison, *The Essence of Decision* (Boston, 1971). For an interest group analysis, see Lester W. Milbrath, "Interest Groups and Foreign Policy," in James Rosenau (ed.), *Domestic Sources of Foreign Policy* (N.Y., 1967). For the Legislative-Executive relations model, see my paper in this volume, "Congress's Impact on Latin America."

the relevant decision makers and their constraints and the critical decisions and their determinants. I found that this is most usefully accomplished by conceptualizing the entire decision-making process in terms of three distinct arenas or decision domains: Industry, Executive, and Legislative. The actors in each arena undertake to articulate and reconcile disparate interests and agree on a common position which is presented to the other domains. There is considerable overlap and interaction between domains, but the rules of the game, the stakes, and the character of the decisions are different enough that it is useful for analytical purposes to visualize three distinct domains.

I. Sugar: The Program, The Issue

When President Franklin D. Roosevelt introduced sugar legislation in 1934, the U.S. sugar industry—like the entire economy—was in a state of unmitigated depression. Many believed that without government assistance or protection, the U.S. sugar industry which includes cane millers and beet and cane farmers and refiners—would be ploughed under by foreign competition. For reasons of economic (employment) and political (20 states) security, FDR's proposal and the Jones-Costigan (Sugar) Act of 1934, which incorporated it, called for the retention though not the expansion of "this necessarily expensive industry."² The remainder of the U.S. consumption requirements (about 45%) would be supplied by the Philippines and Cuba.

Since 1934, the Sugar Act has returned to Congress for extension and revision eleven times, seven of them since the suspension of the Cuban Sugar quota in 1960.³ Sometimes, the Act is extended for three years as in 1971; sometimes, a six-year extension is legislated as in 1965. With each trip through

²From a message sent to Congress on February 8, 1934 by President Roosevelt, cited in D. Gale Johnson, *The Sugar Program: Large Costs and Small Benefits* (Washington, D. C.: American Enterprise Institute for Public Policy Research, April, 1974), p. 9. For a history and description of the Program, see the following: Roy A. Ballinger, Agricultural Economist, Economic Research Service, US Department of Agriculture, *A History of Sugar Marketing*, Agricultural Economic Report No. 197, February, 1971. U.S. Congress, House Committee on Agriculture, the US Sugar Program, December 31, 1970. U.S. Congress, House Committee on Agriculture, *History and Operations of the U.S. Sugar Program*, May 14, 1962. For an annual summary of the operations of the Program, see the Agriculture Department's "Commodity Fact Sheet" (by ASCS).

³The Sugar Act has been extended and amended in the following years since its initial passage in 1934: 1937, 1948, 1952, 1956, 1960, 1961, 1962, 1965, and 1971. In 1964, Industry representatives met with each other, with the House Agriculture Committee and with the Department of Agriculture but couldn't find a basis of agreement, and the Act was allowed to expire for a year. (See David E. Price, "The Politics of Sugar," *Review of Politics* (April, 1971), p. 219).

the Congressional maze, the Program has changed somewhat, but the initial objectives have remained secure: 1) to protect the welfare of the U.S. sugar industry; 2) to provide U.S. consumers with ample sugar supplies at reasonable prices; and 3) to encourage the export trade of the United States.

As administered by the U.S. Department of Agriculture (USDA), the Program achieved its objectives through the management of supply. Each year, the Secretary of Agriculture determined the U.S. consumption requirements, and then according to statute, he assigned quotas (some on a percentage basis; some on a fixed basis) to domestic and to foreign producers. Until 1960, Cuba and the Philippines were responsible for virtually the entire foreign quota. As of 1974, thirty-two foreign countries had quotas, and twenty Latin American countries were responsible for two-thirds of U.S. sugar imports valued at a total of \$528,647,000 in 1972. In addition, the Western Hemisphere countries had "quota preferences" for receiving those quotas which were not filled by other domestic or foreign producers.

II. Renewal of the Sugar Program, 1974: Extension or Abstention?

With the Sugar Act due to expire on December 31, 1974, officials in the Administration and Industry arenas began preparations in 1973 for Hearings which they expected would begin in early Spring, 1974 in Chairman W. R. Poage's House Agriculture Committee.

Industry Arena. Were I to discuss the entire decision as a domestic decision rather than focus on the foreign policy implications, I would have undoubtedly spent the major part of the paper on the bargaining in the Industry arena, for it is there that the most divergent positions, the most strenuous bargaining, and some of the most difficult decisions are made. For the purposes of this paper, however, the pulling-and-hauling in this arena is significant in two ways: (1) The Industry did not become involved in the foreign aspects of the program. The perennial issue of contention between foreign and domestic producers—the division of the total quota between foreign and domestic producers—was not a problem in 1974 since the domestic sugar industry was not capable of filling the existing quota, let alone an enlarged one. (In previous renewals, the problem was solved at the Presidential level by compromise.)⁴ (2) The Industry failed to resolve

⁴In 1971, State resisted while the Agriculture Department insisted that 300,000 tons of the Puerto Rican and Virgin Island quota, which had been prorated to Latin American producers because the islands were incapable of filling it, be re-assigned to

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its differences on two questions—the price objective and the term of the Act—and this diminished the effectiveness of their lobbying efforts in Congress.

Lobbying intensity and thus to a certain extent legislative outcome appear to be a function of the price of sugar. When sugar is in surplus, the price is low, and the Industry has a great incentive to resolve differences and press for Congressional decision. When sugar is scarce and the price is high, as was the case in 1974 (and in 1964), there was less of a necessity to compromise. Though the Industry continued to favor renewal of the Program, other groups, like Consumers and Industrial Users (e.g., Coca Cola), normally dormant and content in periods of low price, become countervailing powers to reckon with in periods of high price. In this arena, then, price, more than process, determined the outcome.⁵

Administration Arena. In 1974, the Executive Branch possessed an institutional mechanism, the Council on International Economic Policy (CIEP), for coordinating and aggregating disparate Departmental views into a single “options paper” for the President. In the particular case of sugar, CIEP chaired a 4-month long Interdepartmental Sugar Study to discuss and define alternative sugar policies for the United States.

On August 2, 1973, CIEP Study Memorandum #28 officially launched the Sugar Study Group, which was to include representatives from the following agencies: State, Treasury, Agriculture, Commerce, Labor, OMB, CEA, STR, Domestic Council, and NSC. The Group was instructed to do a comprehensive review of U.S. Sugar Policy taking into consideration the domestic economy as well as the world sugar situation. The memo detailed as objectives for U.S. sugar policy those incorporated in the present Sugar Act plus the Administration's overall policy goals for making agriculture and trade more responsive to market forces. Domestic political concerns were explicitly set beyond the

mainland cane producers. The Inter-American Affairs Bureau in State (ARA) fought, and over the objections of Economic Bureau, won State's support in trying to re-allocate this quota to Latin America. The President, under great pressure from domestic lobbyists but cognizant of the program's importance to Latin America, compromised by giving that quota to mainland cane, but promised additional deficit allocations plus any growth in consumption requirements to Latin America. In 1965, the process and the solution were almost identical to that of 1971; the principal difference was that the Industry lobbied on behalf of itself within the Administration arena.

⁵In early 1964, when the Act was up for renewal, the price was quite high. The industry failed to reach a common position, and the Congress failed to pass the extension. By the end of 1964, the price had collapsed. Fearing it would do the same, the Industry quickly resolved its differences, and the Congress bought a six-year Act. (Interview with an Industry Representative; see also Price, op. cit.)

scope of the Study, to be included at the final stage of decision. In addition, each agency was directed to submit by August 31st, detailed answers to policy questions to be used as background papers for the Study Group.

Within State, economic issues like U.S. sugar policy are routinely assigned to the Economic and Business Affairs Bureau (“EB” or “E”) for primary responsibility, and a representative from E was designated as State's representative to the CIEP group.

Sugar is the prototype issue that pits E against the Regional Bureaus, particularly the Inter-American Affairs Bureau (ARA). ARA and E have cross-biases, which by a self-fulfilling bureaucratic process are sometimes rendered more accurate than they in fact are. E views ARA as having been infected with the worst case of “clientitis” in the Department. As one E official involved in the Sugar issue said: “Almost half of my time was spent trying to convince country desk people there wasn't much an increase in a quota could do.”

Country desk officers (and the U.S. Embassies abroad, which they in a sense represent) more readily recognize the need for bargaining chips and leverage in bilateral encounters and naturally see things differently. ARA views E as essentially interchangeable with other domestic departments, and therefore feels that it must make the foreign policy case or it will go unmade.

Even before the CIEP memorandum, ARA had recognized that the sugar issue had “special importance” to Latin America since the region accounts for two-thirds of all U.S. imports. After trying unsuccessfully to have its representative assigned to the CIEP group, the bureau diligently sought to catalogue the region's interests and bring it to the attention of Under Secretary Casey. An official in ARA's economics section (ARA/ECP) was made Coordinator for an ARA Sugar Study Group.⁶

Standard operating procedure was that the State Department wouldn't adopt a position until the CIEP group had presented its options paper in December. In the interim, State's Representative kept the relevant bureaus informed of the progress of the group.

In contrast to State, where policy options were being formulated from below, the Agriculture Department had a single, fixed position pressed down from above. An ardent believer in the free market system, Secretary Earl Butz viewed the subsidy payments to U.S. sugar farmers as “hand-outs” and the quota allocations as potentially venal and definitely

⁶ECP plays an important role as intermediary between the country desks and E. Aware of bureau stereotypes, it tries to insulate E from the more glaring cases of clientitis while at the same time providing necessary expertise in economics for ARA.

inefficient. He and the Administrator of the Agricultural Stabilization and Conservation Service (ASCS) Kenneth Frick wanted the U.S. government—in this case, the Sugar Division of the ASCS—to get out of the sugar business, and to do this, they hired a new Director to head the Sugar Division.

Like other government bureaucracies, the Agriculture Department is rent by historical, bureaucratic divisions. The Sugar Division of ASCS, for example, views its counterparts in the Foreign Agricultural Service (FAS) as redundant and suffering from "clientitis", while FAS sees the Sugar Division as beholden to certain elements in the Sugar Industry. In 1973–74, these traditional rivalries were largely forgotten in the face of what must have appeared like a foreign tissue grafted onto the top of the Department.

The division between career officials who were committed to the program in varying degrees, and those political appointees, who were equally committed to replacing or eliminating it, grew increasingly unbridgeable, with important implications for policy. It, in effect, meant that the political top and middle-levels of the bureaucracy—the policy-deciding levels—were cut-off from the career, middle and lower levels, the source of information and expertise.

Once again, cross-biases inhibited communication. The political appointees felt that the career officials were hopelessly entangled with the Industry. Aware that they knew relatively less about the operations of the Sugar Program than the career officials, the appointees, I would hypothesize, combined a fear of being manipulated with the comfortable rationalization that there was little to be learned from the officials anyway, and communicated less and less with them.

From the other perspective, the career officials viewed the appointees as "single-minded," "inflexible," "theological," and as essentially ignorant of the Sugar Program. Said one career official of the politicians: "They never learned—or else refused to recognize—the essential difference between sugar [an imported crop] and soybeans [an export crop]."

The effects of this fundamental communications breakdown were transmitted throughout the entire governmental decision-making process. Members of the CIEP Sugar Group were dismayed by the disunity within the Agriculture Department. The target-price proposal put forward by the Agriculture Department's leadership never went beyond a skeleton outline. The give-and-take within the Agriculture Department necessary to harden the bones and put meat on the proposal was never given or taken.⁷ Policy papers sent by the Agricul-

ture Department at the request of CIEP were either inadequate or in a few cases contradicted the Department's conclusions.⁸

The Agriculture Department also violated an implied rule of the CIEP game by "prematurely" floating their target-price proposal. One CIEP member said: "We thought Agriculture was trying to close off the President's options, and it made a lot of people mad."⁹

Essentially, the USDA Plan called for the elimination of all domestic controls, of subsidy payments, the excise tax, and of the country-quota system. The market would be free to set its own price. The only government intervention would be to make "deficiency payments" to farmers if the market price fell below a USDA-established target price.¹⁰

between certain officials in the Agriculture Department and certain officials in State served to educate State and provide an indirect conduit of expertise into the CIEP group. CIEP had also contracted with two economists who were familiar with the sugar industry, if not the program itself.

⁸The conclusion of the Department of Agriculture was that "freeing the market" would be the best way to increase production in the U.S. and worldwide and therefore reduce price. In his testimony before the House Agriculture Committee, Secretary Butz said that government regulation of production serves "as a device of the future [to] inhibit the investment of production and processing capital. I have confidence that the sugar industry will grow and prosper if the marketplace is permitted to guide its future." (U.S. Congress, House Committee on Agriculture, *Hearings: Sugar Act Extension*, 1974, February–March, 1974, p. 4). This view is not widely shared in the Department; and one person quite close to the Secretary told me that statement did not represent Mr. Butz's views before becoming Secretary. Also, a document written by a sugar expert in the Foreign Agriculture Service to CIEP on December 10, 1973 said that the effect of eliminating the country-quota system would be "to lessen the incentive for foreign producers to invest in new production facilities. World production would, therefore, be less than that projected under the assumption of the continuation of the present Sugar Act. The result would be a world free-market price somewhat higher than that which might be expected for 1980 if a program similar to the present U.S. Sugar Program were in effect."

⁹What happened was that on November 1, 1973, the Agriculture Department finally agreed to a meeting which the Industry had been requesting, but which CIEP opposed. (Such meetings between government and industry representatives prior to Congressional Hearings were an established procedure in the past.) At the meeting, a top Agriculture Department official sketched what came to be known as the "Frick Float" to the astonished audience of industry representatives. Although there had been rumors that the Agriculture Department wanted to abandon the sugar program, the first confirmation came at this meeting. A report of the meeting leaked to the *Wall Street Journal* on November 5, 1973, and the story was entitled "US Agency Seeks to Free Sugar From All Import, Planting Controls by 1975."

¹⁰One problem, as Chairman Poage made very clear in an interview the day after the story broke, was in setting the price. "If they set a low target price, sugar production will be unprofitable. If they set a high target, and prices come down from present levels, the government would have to make heavy payments to farmers." (*Journal of Commerce*, November 7, 1973, p. 7.). This criticism was raised by the Treasury Department which was concerned that the "deficiency payments" might greatly exceed the cost of the present program and that unlike the present subsidy

⁷The expertise of career officials in the Agriculture Department did not go untapped. Informal inter-bureaucratic alliances

The reaction from the Industry and the Congress was immediate and tough, and the Agriculture Department at the request of the White House was forced to lower its profile. The "Frick Float" drew a sharp reaction from abroad as well as from home. The State Department tried to quell the disquiet by cabling the Embassies that the USDA's target-price proposal was one of several options and that the Administration had not yet made a decision.

The CIEP Sugar Group met once a week throughout the autumn discussing and refining the options. In mid-December, the first draft of the options paper was sent to the Departments for comments.

Before defining the three options, the paper provided a background summary of the program; reintroduced the legislative, domestic political (industry lobbyists), and foreign policy constraints; listed eight different criteria for judging each option (including foreign policy impact on Latin America); and finally posed the *pivotal philosophical question*: should the role of government in sugar be (1) to assure stable supplies at reasonable prices, and retain domestic production at about present levels; or (2) to return the program to market forces?

The three options were the following:

I. Labelled as "current sugar act with modifications," it in fact tried to introduce a good measure of flexibility—"market forces"—through a widening of the price corridor;

II. USDA's option: open-market system with target-price support for domestic producers; no foreign quotas;

III. A (compromise) transition option, which would move to option II very gradually.

Each option was followed by a comprehensive list of pro's and con's. In addition, the paper included two additional possibilities: (1) let Congress do as it wills with the Administration monitoring and reacting (this was the strategy in 1971); and (2) propose an option, if Congress rejects it and passes the Sugar Act, veto it.

Copies of the options paper were circulated to all the Departments with instructions that positions be prepared for a Senior Review Group Meeting at CIEP on January 11, 1974.

Within the State Department, ARA rather predictably chose option I or the current act. With the exception of the European Bureau (EUR), which saw some advantage for multilateral trade negotiations in choosing the free market option (#II), all the other regional bureaus supported ARA. E, of course, was "principally responsible" for drafting

payments which were balanced by the excise tax, the new payments would come out of the Treasury with nothing else going on.

the Secretary's options paper, but the regional bureaus found E's first two drafts quite acceptable.

Then, on January 10, a Deputy Assistant Secretary in E acting for the absent Assistant Secretary, shifted the weight of the recommendations to the free market option. The Regional bureaus reacted sharply, and Under Secretary William Casey decided in the absence of Secretary Kissinger, who was shuttling between Middle Eastern capitals, to postpone the Department's decision until after the CIEP meeting.¹¹

On January 15th, Rush and Casey called a meeting to decide on State's position. The arguments of E and the Regional Bureaus (represented by ARA) were presented, and the options were condensed to two: (I) present act or (II) free market. E was in favor of option II "on grounds of sound economic policy." "The present Act," according to E, "earns the U.S. no real benefits abroad, nor will we gain anything abroad from an extension."

ARA differed for the following reasons:

(1) The existing quota system guaranteed supplies; and (2) staved off potential cartelization (by Brazil and two or three other producers) of the industry. (3) Eliminating the quota system would lead to multiple foreign policy reactions since our foreign suppliers prefer the stability of the existing system; and (4) Congressional hearings coincided with Kissinger's meeting in Mexico City with the Latin American foreign ministers. Chances were good that if the Administration testified against the existing sugar program the "new dialogue" would be born mute.

Casey and Rush caucused after the meeting, and the next day, Casey sent a two-paragraph cable to Kissinger. The memo related the disagreement between the Regional Bureaus and E, concluding in favor of the former. The next day Kissinger wired back his agreement, and Casey then sent a memo to Flanigan presenting State's position, which was basically for a continuation of the country quota system under the present Sugar Act. The *general* reason: "We are concerned that a change in the existing quota system could be disruptive of our foreign relations." The specific reasons for not abandoning a country quota system were four: 1) could disrupt negotiations with the Philippines over investments and base rights; 2) less efficient producers in the Caribbean could lose some or all of their market in the U.S. with possible adverse consequences for our bauxite and other interests there; 3) would set back our new dialogue with Latin America; and 4) would entail a political cost particularly since Congress doesn't want change,

¹¹For a more thorough discussion of the "bureaucratic politics" in State, see my original paper, prepared in December, 1974, pp. 24-27.

and if it did, it is uncertain whether there would be any benefit to the consumer.

In short, "the spirit of Tlatelolco," which had kept its distance throughout most of the decision-making process in State as well as in CIEP, re-entered in the last stage.

What happened in CIEP? The final options paper was re-worked and sent to the President on January 28th. It began by saying that House Agriculture Committee Chairman Poage intended to introduce his own bill on February 1st, and therefore an Administration position was needed on the same day. Under the influence of William Timmons, White House Congressional Liaison, the options paper was re-worked into two strategies. Strategy One (supported only by Timmons) was not to introduce any proposals, but to respond and monitor Congressional activity.

Strategy II called for introducing Administration proposals, and the three options from earlier CIEP papers were incorporated under this strategy. Option I would provide for greater price flexibility, would remove all restrictions on domestic production, but would retain foreign country quotas. Kissinger and Timmons supported this option.

Option II was the target-price option, and it was supported by Butz, Brennan, (Labor), Stein (CEA), Cole (Domestic Council) and Ash (OMB).

Option III was the gradual three-year transition option which would retain country quotas but allow for greater price flexibility. Schultz (Treasury), Dent (Commerce), Eberle (STR), and Flanigan (CIEP) supported this. The options paper included an analysis of the political alignment of outside forces. Industrial users favored Option I, but the Industry opposed any change.

Another important consideration but one not contained in the options paper was how the President's position on sugar would affect his support among conservative Congressmen on the impeachment issue. Timmons suggested that anything stronger than Option I would be a "tactical error," in a sense "throwing down the gauntlet" to Congress.

One measure of the genuineness of the alternatives is the bureaucratic spread on the options: two agencies for Option #I; 5 for #II; and 4 for #III.

On February 5th, Flanigan received a reply from the White House. Strategy #1 was approved: the Administration would not present its own proposals, but would work with the Congress to develop a tolerable new Act. On February 7th, CIEP Decision Memorandum #20 relayed the President's decision to all the Departments.

Implementation. Though there were some bureaucratic bottlenecks, the issues followed the routine path through the Departments, between the Departments, and up to the President for decision.

Like most routine decisions, the work was done at the lower and middle levels of the bureaucracy; and the attention of the decision makers was concentrated on the issue just long enough to read the final product and make the decision. One estimate by a member of the CIEP Sugar Group and a person with White House experience was that the President spent five to ten minutes on the final decision, i.e., on the entire issue.

The next stage in the process was to *implement* a one-sentence decision. The CIEP Sugar Group re-assembled on February 7th to decide on Administration guidelines. After predictable bickering, it was decided that the Administration would support a three year Act with greater price flexibility. From State's perspective, the two most important items—that the Administration would support an Act and that it would contain a country-quota system—were accepted. In addition, State gained agreement that there would be *minimal changes* in the quota allocation formula and no change in the Cuban reserve.

OMB was responsible for overseeing the Administration's Hill strategy, but after Deputy Assistant Secretary of State Julius Katz and Secretary Butz testified before the House Agriculture Committee, OMB allowed State broad discretion to choose the specific foreign policy issues for which it would fight during mark-up sessions.

In 1974, the House Agriculture Committee accepted State's principle of minimal changes in quotas, and a Representative from E worked with the Staff of the Committee to devise a formula based solely on country performance in filling their quotas in 1972 and 1973. This formula set the rule for all but three exceptions: Thailand, the West Indies, and Venezuela.

As in 1971, when State had to fight for an increase in the Panamanian quota because President Nixon had promised their President, so too did State have to fight for an increase in the Thai quota because of statements by a high State Department official to the Thai Premier.¹²

¹²Whether it's because they don't like to share the prerogative of increasing a quota or because they don't like being blamed for it when they're not even interested in the first place, the House Agriculture Committee is never happy when State asks for an increase in a country's quota. The exchange between Poage and Katz in 1974:

"The Chairman: . . . Now, Mr. Katz, when we passed the last sugar bill, you—I mean the State Department—came before us and asked us to give an additional quota to Panama. You have not any similar requests this year?"

Mr. Katz: Not at this time, sir.

The Chairman: Do I understand that you may come up here after we get through the hearing and ask for something at that time?

Mr. Katz: Mr. Chairman, I have many masters. It is our position now that we do not have any such request. We will be glad to work with the committee, but we do not have any requests at this time." (p. 28)

The cases of Venezuela and the West Indies were more typical in that State was not pressing for a quota increase but trying to avoid a punitive reduction.¹³ State took up the case for the West Indies because of the precariousness of other U.S. interests in the region, particularly bauxite in Jamaica and Guyana. State wanted to "preserve the maximum incentive for these new nations to maintain favorable relations with" the U.S. In the end, the Agriculture Committee decided not to reduce their quotas as much as the performance criteria would have required.

With the case of Venezuela, there was no real need for State's involvement. The Venezuelan government—aware of the pluralistic character of the USG—invited the entire House Agriculture Committee to Caracas in August, 1973 to see the new investment by the government in the sugar industry and, more important, to see the effects of the 1973 drought, which had led to a shortfall in sugar production. According to Staff on the House Committee, "the trip made all the difference." Not only was the Venezuelan share maintained, but Rep. Gunter's amendment to suspend Venezuela's quota until the price of petroleum declined was resoundingly defeated by voice vote.¹⁴

The only other time E took up the cudgel on behalf of ARA was on the issue of the "Western Hemisphere preference" for deficit allocations. The discussion with the Committee had a doubly ironic twist to it. Poage and his protectionist Committee argued against special regional preference and for a global policy. Poage's principal interest was in obtaining sugar to fill deficits from wherever possible. E, the bureau responsible for casting issues within a global frame of reference, found itself arguing at the behest of ARA on behalf of a special bloc preference. The Committee conceded after E brought out its medium-level bureaucratic artillery.

The bargaining strength of State vis-à-vis the Committee derived from several sources: (1) the appearance of being united and cohesive;¹⁵ (2) an authoritative voice on the foreign policy implications of specific actions; and (3) their astute conser-

vation of bargaining resources. The last is the most significant. The fact that State was "willing to let the Committee work its will" was critical in obtaining the Committee's respect. As one senior Staff of the Committee put it: "If State takes a hard position, the Committee bends *because they rarely come in.*"

E faces the Hill, and is therefore more interested in "picking its fights" to conserve its bargaining strength. ARA is aware of this and concedes certain cases—in 1974, for example, Bolivia, Honduras, and Haiti. These were countries with limited export capacities, and even ARA reluctantly agreed with Congress's move to give them a single, boat-load (of sugar) quota.

The only other foreign policy issue that provoked firm State reaction was on the question of expropriation. Poage felt very strongly about protecting U.S. investments abroad and wanted to reintroduce a mandatory amendment requiring the suspension of the sugar quota for any country that expropriates American property without adequate compensation. State had been through this issue with Poage a dozen times before, and always chipped him down to a compromise, discretionary version.

For the Hearings, ARA provided Katz with a complete inventory of all outstanding investment disputes. In addition, a great deal of pressure was put on Embassies to try to get host governments to resolve these disputes prior to the Hearings. A typical cable sent to an Embassy on this issue would read: "Government of _____ should understand that failure to resolve pending cases could affect their quota levels or, under one proposal, result in special fee on their sugar exports to U.S." Other than the Peruvian cases, which were resolved for reasons relating to Secretary Kissinger's meetings at Tlatelolco, no dispute, to my knowledge, was resolved due to this supplementary pressure. Nonetheless, State, and ARA in particular, were concerned that Congress would try to use the Sugar Program "as a lever" to force State to take action.

State reiterated its concern and according to House Committee Staff "started rattling the veto sword." But it was the Staff who, in the end, persuaded Poage that a mandatory amendment "was like nuke-ing La Paz," and he dropped the idea.

These cases were acknowledged as undiluted foreign policy issues, i.e., having little or no domestic content, and historically Agriculture Department has deferred to State on such issues. The relevant arenas for addressing these issues are within State and between State and Congress. The Legislative-Executive debate pivots around recurrent problems: 1) protection of U.S. interests abroad; 2) the foreign policies of quota-recipient nations; 3) the responsiveness of State to Congressional concern; and 4) prerogative (which Branch determines . . . ?). Interaction is generally characterized by a sophis-

[The reference to "many masters" was probably to the fact that the source of the request was not State, but the White House.]

¹³Both the West Indies and Venezuela had not filled their quotas in 1973, and the performance criteria established by the Committee would have required that their quotas be reduced by the quantity of the unfilled quota.

¹⁴The Venezuelan Government was not the first to use this device. The Dominican Republic invited influential Congressmen to the island throughout the 1960s. And Brazil did it in April, 1973—also successfully.

¹⁵Unlike the Agriculture Department, State cast a shell around its internal debate. No one—not the Agriculture Department, not the Industry, not Congress—thought that State was anything less than completely united in support of the existing program.

ticated kind of vote-trading: "We'll let you do this; if you let us do that." In those years, like 1974, when there were few serious disputes with quota-recipient nations, and when the debate on domestic issues was particularly intense, the attention to foreign policy issues naturally lessened.

On those issues viewed as principally domestic, however, the Agriculture Department holds tight to its prerogative. A good example of this occurred on January 11, 1974, when the Secretary of USDA announced a 500,000 ton increase in the U.S. consumption requirements and allocated that quota to foreign sources on a first-come-first-served basis. This was an administrative rather than a legislative decision, but its impact was directly felt on the legislative process. The decision to raise the consumption requirements to 12.5 million tons for 1974 was made when most Agriculture Department officials admitted that 11.8 million tons would satisfy the demand in the U.S. The ostensible reason for the decision was to increase supply in the U.S. and thereby brake the soaring price of sugar. However, virtually all sugar experts outside the Department as well as many career officials in the Department knew that the only effect of bidding on a world market already characterized by severe shortages and a price higher than the U.S. domestic one could only drive the U.S. price up. These people felt that the real reason for the decision was to "sabotage" (a word used by many individuals in many arenas)¹⁶ the Sugar Program, since the high price would divide the industry lobbyists and unify the consumer opponents. Such, in fact, was the effect.

The State Department learned of the decision a few hours before it was to be announced. A last-minute phone call to the Administrator of ASCS proved ineffective.¹⁷

What about those two-sided issues which can be considered as both foreign and domestic policy? Two cases—the confectionary quota and a proposed increase in the import duty—are illustrative.

In 1971, and again in 1974, James E. Mack, Presi-

¹⁶On January 24, 1974, Senators Long and Bennett, the Chairman and ranking minority member of the Senate Finance Committee, sent a strongly-worded denunciation of USDA's "decisions" and speeches to the President. The letter drew an explicit causal relationship between the January 11th decision and the instability of the sugar market. The world price of sugar, they stated, rose from 14.5 cents a pound on January 11th to 16 cents on January 18th. The Senators requested the President to issue a statement to the effect that he had no plan to suspend operations of the Act. The letter ended: We "look forward to an early report as to what assistance the Senate Committee on Finance might expect from the Administration in protecting the integrity of the Sugar Act."

¹⁷The Agriculture Department consulted with the Cost of Living Council before announcing the increase, but they had no trouble selling the idea on historical grounds that an increase in supply was necessary to dampen the price. The method, however, has only worked when the US domestic price is above the world price, which wasn't the case on January 11, 1974.

dent and General Counsel of the National Confectioners Association, bypassed the more internationalist Ways and Means Committee, and won acceptance of his proposal to restrict imports of candy from the more protectionist House Agriculture Committee. Deputy Assistant Secretary Katz made a vigorous formal statement in opposition to the provision (Sect. 206(d)) in his testimony,¹⁸ and E's Representative brought the issue up in the ad hoc Committee meetings after the Hearings, but the Committee responded: "Forget it." And that is apparently what State did.

The Hawaiian Sugar Industry had gained industry-wide acceptance for a fifty cent increase (per hundred ton) on the raw sugar duty. State fought this battle and won.

In both cases, State paraded arguments of international agreements, like GATT, which had been approved by Congress. In the second case, State may have fought a little harder, but the conclusion to be drawn is that in the Congressional domain, foreign-domestic policy issues are treated like domestic policy issues, and State is one actor among several dozen. To be effective, State must pick its fights.

Congressional Decision: Floor Play. The Sugar Bill, H.R. 14747, emerged from Committee on May 14th by a vote of 30-5. It called for a five-year Act, setting quotas for domestic producer and thirty-two foreign nations. There were few who thought Poage's bill would not pass, though the opposition was stronger than ever before.

The Sugar Act had successfully run the Congressional gauntlet in the past because the costs were not so obvious to its potential critics as were the benefits to its highly-motivated proponents. Its potential opponents were two: 1) those ideologically opposed to government regulation or involvement in the economy; and 2) consumers and industrial users who paid a "premium price" for their sugar more often than not.

In the Spring, 1974, a short monograph entitled *The Sugar Program: Large Costs and Small Benefits* by D. Gale Johnson, a conservative University of Chicago economics Professor, was published and widely distributed. Frequently quoted in the debates on the Floor of the House, in newspaper articles, and in a report issued by the House Republican Conference, the pamphlet provided the theoretical and statistical ammunition for those intent on shooting down the Sugar Program. Consumer groups found a spokesman in Rep. Peter Peyser, a Republican from New York, who had been selected in May to fill a vacant seat on the House Agriculture Committee.

On the floor of the House, Rep. William Ford (D-Mich) introduced four labor amendments,

¹⁸Hearings: *Sugar Act Extension*, 1974, op. cit., p. 10.

which the Committee had rejected. The amendments passed, alienating many of the traditional supporters of the bill. In the final vote, four out of five Colorado Congressmen representing sugar beet districts voted against the Act just because of these provisions.

To pass the bill would have required an Administration willing to pull the Republican Congressmen into line. No such effort was made. In fact, not only did the House Republican Conference come out in opposition to the bill, but Rep. John Anderson (R-Ill.), a man with considerable influence among his fellow House Republicans, gave a blistering speech on the Floor calling for the demise of the program.¹⁹

At 6:30 P.M. on June 5, 1974, H.R. 14747, a bill to extend the Sugar Act, was defeated by a vote of 209-175. Almost everyone was surprised by the defeat as well as by the size of the defeat.

Chairman Poage had worked so long and so hard on the bill that he refused even to request recommitment. He suggested that Chairman Long could work on it in the Senate Finance Committee, but for a variety of reasons—some constitutional, others to do with divided constituency pressures—Long decided not to pick it up.

The Sugar Act expired on December 31, 1974.

The reaction in Latin America was immediate and angry. In Colombia's leading newspaper, *El Tiempo*, an editorial on June 12th called the defeat "one more act which contradicts the policy agreed to by Dr. Kissinger and the Latin American Foreign Ministers. First, there was opposition by the U.S. Congress to the coffee agreement, then problems with cut flowers, and now elimination of sugar quotas." The editorial ended by suggesting that if Kissinger were genuinely sincere about the "new dialogue," he would intervene in favor of the extension of the Sugar Act.²⁰

III. Narrowing the Gap Between Policy and Outcome

Between "Tlatelolco" and the defeat of the Sugar Act, between promise and harsh reality, lies a complicated decision-making process—one which had to grind in other interests, perspectives, and objectives.

The 1974 legislative review of the Sugar Program was unusual in that it was the first time that the survival of the program was a serious issue in itself. The final defeat of the program can be attributed to three major causes: (1) the emergence of a strong consumer and industrial user lobby; (2) failure by

the sugar industry to present a united front; and (3) equivocation by the Administration. The first two were ultimately determined by the high price of sugar, which made the former groups angry and the latter group complacent. Had any of these three factors not been present, the Act, in my opinion, would have passed.

In the light of a Presidential decision to support the Act and an over-arching Administration policy to foster better trade relations with Latin America, how did it happen that the Administration helped undermine the Act? For one, the Agriculture Department lobbied very hard against the Act. As Chairman of CIEP, Secretary of the Treasury George Schultz was responsible for pulling Secretary of Agriculture Earl Butz back-on-board the Administration policy, but he was reluctant to apply the kind of pressure needed to do that because the Sugar Act was not as important to him as it was to Butz and because Schultz believed, like most others, that the bill would pass regardless of what Butz did. Secondly, the Liaison Office of the Agriculture Department which would have been responsible for pulling the Republican Congressmen into line in support of the Act actually encouraged their defection. The result was that 121 Republicans voted against the Act while only 47 voted for it.

President Nixon was preoccupied with other matters, but even if there hadn't been a Watergate, Executive equivocation due to conflicting objectives would still have been likely. While support for the Act was consistent with the policy of Tlatelolco, it was inconsistent with the policy of developing a non-regulated open world economy.²¹ Furthermore, while the free market ideologues viewed the Sugar Act as abominably corrupt and inefficient, the political pragmatists in the Administration realized that foreign policy considerations and the Trade Bill (held hostage by Senator Long) required, at the least, Presidential neutrality.²²

To return to our initial question, how to explain

²¹Of course, even with the de-regulation of the US sugar industry, the world sugar trade remains highly regulated. See Ballinger, op. cit., pp. 72-77.

²²The Senate Finance Committee handles legislation which is very important to the Administration, and it does not hesitate to use this chip. For example, in the 1971 renewal, Senator Bennett told top officials in the White House: "Why destroy this attitude of the Chairman of the Senate Finance Committee which has Welfare Reform, Trade, Health Insurance, Revenue Sharing, and myriad other Administration programs by going against the Chairman and the industry on sugar legislation on matters on which in his opinion the Administration probably can't win since the Committees are going to agree with the Industry." (Memorandum from Tom Korologos, White House Liaison Office, to Pete Peterson, April 30, 1971.) The principal issue alluded to in the memo was the allocation of the Puerto Rican quota to mainland or to overseas producers. In 1974, two days before the President's decision, the White House received what was described as a "not so subtle" message from the Senate Finance Committee that the latter might have some difficulty moving a Trade Bill without a Sugar Program.

¹⁹For the floor debates and votes, see *Congressional Record*, June 5, 1974, pp. H4735-4782.

²⁰*El Tiempo*, June 12, 1974.

the discrepancy between Tlatelolco and the defeat of the Act, is easy. Tlatelolco played no role whatsoever in the final legislative decision. The only way it could have played a role in an arena powerfully oriented to domestic interests on an issue which is predominantly viewed as domestic was by Administration injection, and as we saw, the Administration's position, due to bureaucratic cross-hauling, was ambiguous in this final arena. However, within the State Department and within the Executive arena, "Tlatelolco" played a more important role than one would have expected given the wide range of considerations involved in the Sugar Program and the relatively low priority of Latin American issues on the U.S. foreign policy agenda.²³

Policy and Process: Some Suggestions. What conclusions can we draw about organization and process from the interplay between the many groups of governmental and non-governmental actors in decision making for sugar?

1. *Interaction between State and Agriculture*—Generally, Agriculture will defer to State on "pure" foreign policy issues, just as State will defer to Agriculture on "pure" domestic issues. Both Departments are very alert, however, to those issues which have both international and domestic dimensions. This intersecting bargaining area includes issues which a Department will propose only for trading purposes. Policy consistency is necessarily a casualty in such a decision-making process.

2. *Interaction between State and Congress*—Congress is more likely to negotiate with State on the "pure" foreign policy issues than the Agriculture Department. Beginning with a stronger sense of constituency-pressures and constituency-service, Congress is more likely to express concern for protecting U.S. interests abroad. The Sugar Act provides opportunity for Congress to "lean" on State and on foreign governments.

State has adopted certain operating principles, like "minimal changes in quotas" partly to resolve a recurrent inter-bureaucratic feud between E and ARA and partly because State has come to believe that manipulation of the Sugar Quota for foreign policy purposes is ineffective, or worse, counterproductive.

In order to succeed in the Congressional arena, State naturally tries to exploit Congressional pluralism (just as Congress does in the Executive).

3. *Interaction between Lobbyists (Latin American gov-*

ernments) and the USG—Given the operating principle of State, lobbyists will only gain a sympathetic ear in State if the country they represent has been the object of undeserved Congressional pique. In short, though lobbyists and foreign governments make frequent contact with officials in State, it serves no purpose other than to prove the lawyer's industriousness to his client.

The Hill is a different matter, and most lobbyists have learned that Congress is the arena that matters—or rather has, in the past, mattered. It did not matter—with one tiny exception (Malawi)—in 1974; it probably did matter in 1971; it definitely mattered in 1961, 1962, and 1965.

4. *Industry and Congress*—The Industry formulates a position and tries to reconcile it with that of the Sugar Users Group (industrial users). If a consensus is reached, the formula will almost surely be adopted by the House Agriculture Committee. If division remains, and this is often the case in times of shortage, then the political process is more complicated, coalitions are tenuous, and the Administration's role is more important.

Given these enduring interactive processes, to what extent would Administrative reorganization matter?

The 1962 and 1974 cases were the only times when comprehensive policy options were presented to the President. In 1962, Sugar represented one element in a general commodity policy which President Kennedy requested from his Staff. Much of President Kennedy's proposal was rejected by the Industry and revised considerably by Congress. In 1974, as we have seen, CIEP organized a comprehensive review of the Sugar Program. A good options paper was written, but as in 1971, when a rushed and inadequate proposal was written, or even in 1965, when the Bureau of the Budget hastily assembled a paper, the outcomes were remarkably similar. Congress has rewritten the Administration bill when presented with one; other times they have written their own with Industry's help.

To summarize, administrative reorganization has mattered in the definition and drafting stages. For the sugar case at least, the establishment of CIEP has meant an improvement in the coordination and assimilation of diverse departmental perspectives into a relatively high quality options paper for the President. It has made no difference in the implementation stage, where informal patterns of interaction prevail.

Most important, administrative reorganization has not mattered in the ultimate, legislative outcome, and this is because the Administration's decision making process is inadequately adapted to cope with a decision like the renewal of the Sugar Program which involves so many actors in so many arenas. My principal recommendation is that

²³See Abraham F. Lowenthal and Gregory F. Treverton, "U.S. Policy-Making Toward Latin America Improving the Process," in this volume. One State Department official interpreted the lack of attention to Latin America not because of lower priority but because of "the heavy demand on State's attention outside the area of Latin America."

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the U.S. government needs to reevaluate its traditional, closed, passive approach to these issues. The new role must be premised on the fact that the Industry arena is a critical arena, and if the Administration wants to mold a Sugar Program around its own conception of national values and priorities, it will have to make its decision *before, not after* the Industry has resolved its differences, and try to sell its conception to that arena as well as to the Congressional arena.²⁴ Secondly, it does not appear that a closed decision-making process is conducive to Administration effectiveness in this issue-area. One must remember that the decision-making process is not closed to special interests, who know when and where to plug in; it is only closed to a potential ally of national priorities, the general public.

Although *high-level attention at an early stage* is no guarantee of success, anything less appears to guarantee the status quo. An excellent example is provided in the case of a neighbor commodity, coffee. In 1962, President Kennedy took an active role and sold the coffee agreement to private industry and Congress. In 1968, however, the Administration kept their options closed and tight, and found policy made for them by General Foods.²⁵

By now, it should have become a bureaucratic axiom that regardless of an individual's negotiating abilities, *different levels of a bureaucracy have different political resources*. What is infeasible for one level to effect, may be within the reach of a higher level. It is relatively well-known that since Kennedy's initiatives in 1962, U.S. policy on commodities has been consistently squashed at the middle levels of State on grounds of domestic political infeasibility. It is undeniably true that middle-level initiatives in such issue-areas would not stand a chance in Congress, but the infeasibility, I would contend, is more a function of bureaucratic-level than issue-area.

Within the State Department, the interaction between E and regional bureaus is important in providing E with a sense of how domestic policies effect foreign countries and in providing the regional

bureaus with a sense of what is domestically feasible. Presently E sits on top of the regional bureaus for all economic issues. I would recommend that the interests of the Department and of the country would be better served if the regional bureaus had a voice and clout coequal to that of E, by the establishment of an Under Secretariat for Less Developed Countries. Such an institutional focus is desirable for two reasons: (1) it would *discourage regional attempts* at securing special privileges which is in the end counterproductive to healthy intergovernmental relationships. (2) It would *encourage a global approach* to the problems of the less developed world. While a policy which gave special attention to a *particular* region of the developing world is worth discouraging, I believe the interests of the U.S. are best served if the gap between North and South as a whole is not permitted to widen, and concerted attempts are made to narrow it.

The functional bureaus in State, particularly E, tend to be reflective of a Northern (Western Europe, Canada, and Japan) perspective, and are not prepared—nor are they designed—to address the myriad special kinds of problems associated with the developing world. Thus, the Under Secretariat for LDC's would be a peculiar kind of hybrid: like E, it would approach global (actually sub-global) problems in a functional manner; like the regional bureaus, it would be concerned with the impact of U.S. domestic policies on the Third World, and would seek to develop coherent, consistent, and *positive* U.S. policies to deal with problems which are Third World in character—like investment disputes, famine, disaster relief, population, food—on a subglobal rather than a regional basis.

A growing global interdependence requires that the wall which has traditionally separated domestic from international issues be scaled organizationally. The implicit assumption undergirding much of our analysis—that the international dimension of domestic issues should be given to the State Department—is not an adequate response. Both sides of the wall must be factored into both kinds of issues. Just as State must have its E Bureau to input domestic constraints, domestic agencies and Committees require that a transnationalist perspective be accepted and absorbed. This can be done by attaching a foreign policy analyst to domestic agencies. Another way would be to increase the number of formal and informal meetings between Congressmen and foreign legislators and officials, particularly to discuss economic issues—those foreign policy issues in which Legislatures have comparatively the most power.

* * *

Throughout the paper, we also assumed that any discrepancy between policy and outcome should be

²⁴In 1971, one of CIEP's first tasks as a newly-created Executive agency was to organize sugar strategy. An Inter-Agency Task Force chaired by an official from the Department of Agriculture had been working on it prior to the establishment of CIEP. When CIEP sent the options paper to the President, it was candidly critical of the work of the Inter-Agency Task Force. The paper said: "Realistically, it must be recognized how exceedingly difficult and politically hazardous it is for the Administration to make major new policy proposals at this late date." The main problem, it went on, was that the industry had successfully persuaded Congress on the main points. Congressman Belcher, who could lead the Administration's fight, had had "a nuanced position . . . but while the Administration deliberated, he too, accommodated to the interest group point of view."

²⁵See Stephen Krasner, "Business-Government Relations: The Case of the International Coffee Agreement," *International Organization* (Autumn, 1973), 495-516.

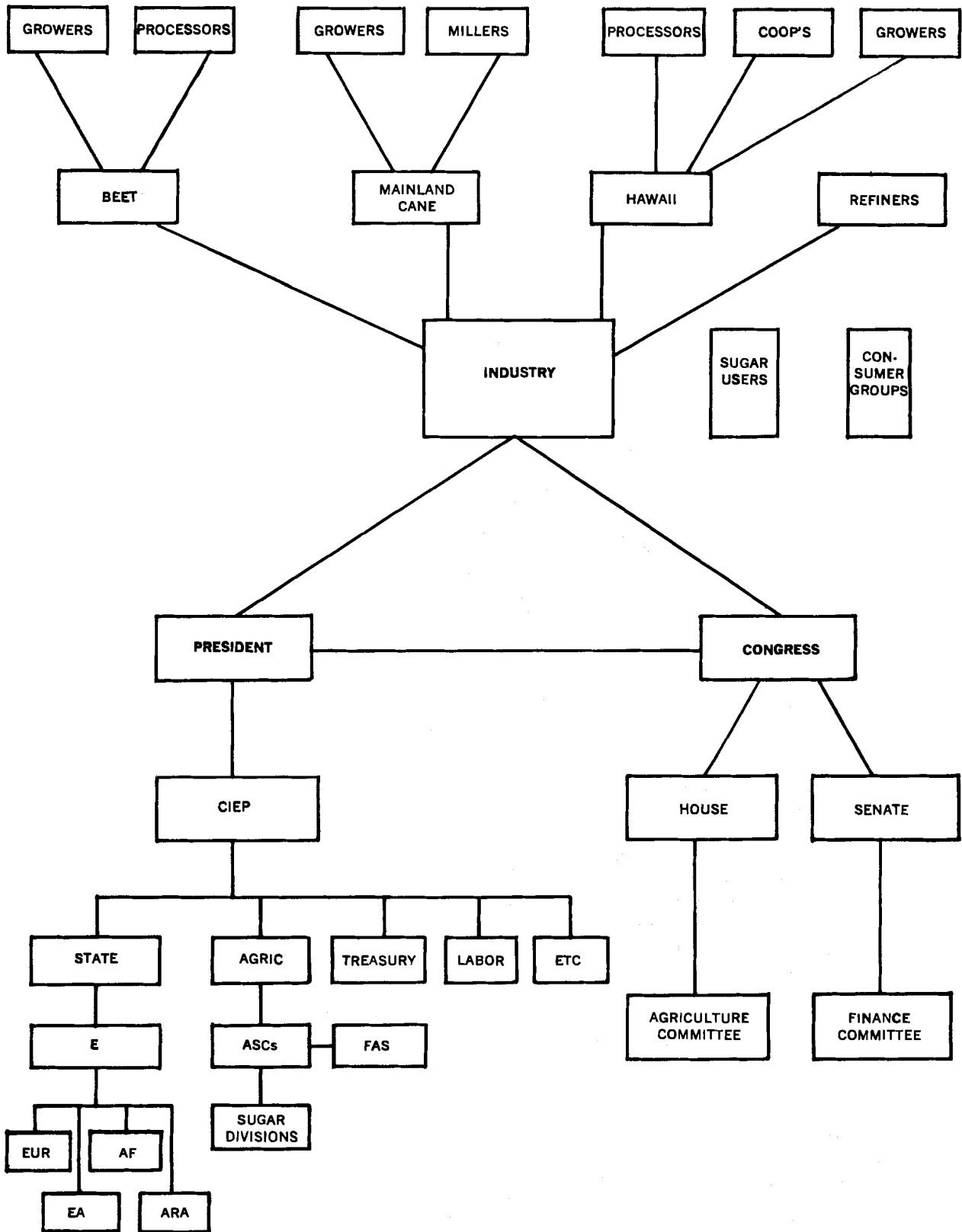
corrected by adjusting the process or the organization; but the enduring character of the "discrepancy" should caution the policymaker. Secretary Kissinger, for example, should not so readily pledge U.S. support for Latin American trade aspirations if the governmental decision-making *process* is biased towards producing other outcomes. Though I find the policy justifiable, I think we serve no one's interest in articulating unrealizable foreign policies.

The demands of a domestic constituency and the requirements of an interdependent world are not likely to be resolved by a single sweep of the policy wand. In short, a consistent application of the "spirit of Tlatelolco" is unrealistic. A foreign *economic* policy that must rely on sustained, high-level attention toward a single unambiguous goal is unattainable. To assume that it can be done because the U.S. government has pursued an unambiguous foreign security policy goal—anti-Communism—for a long period, is to miss the critical distinction between foreign security and foreign economic policy. Suggestions for bureaucratic reorganization (see Chart I.) in pursuit of

the economic goal will necessarily be inadequate. Nothing short of a reordering of all domestic goals could insure that "Tlatelolco" would be implemented consistently. Unless Tlatelolco somehow gets entangled with a foreign security goal—as the Marshall Plan did, or the Alliance did for a short period of time—the defeats (sugar, tomatoes, cut-flowers, footwear) in the U.S. decision domain will easily outnumber the victories (a generalized system of preferences).

In essence, the problem lies on the interface between foreign economic and domestic economic policy, not on foreign economic and foreign security policy, as our "National Security Managers" are wont to think. The concept of trade-off and compromise is alien to a security context; it is inherent in an economic one. Once these concepts are accepted, once wholesale consistency is recognized (by our foreign policy managers and by foreigners) as an impossibility, then the game will shift to the margins, then footwear will be traded for tomatoes, strawberries for textiles, and then bureaucratic rearrangement will make a difference. Not *the* difference, *a* difference.

CHART I.—ORGANIZATION CHART FOR DECISION-MAKING ON RENEWAL OF SUGAR PROGRAM



Summary: U.S.-Latin American Relations and the Cases of the Countervailing Duty

Donald L. Wyman*
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If the United States conducted a coherent foreign policy, what the government does (action) would be consistent with statements by central decision makers about what the government is going to do (policy). In February of 1974 Secretary of State Henry Kissinger in a major policy address to Latin American foreign ministers assembled in Mexico City, pledged the United States to keep from imposing any "new" restrictions on the access of Latin American exports to the United States market.¹ Yet, less than one month later, the Treasury Department announced the initiation of formal countervailing duty proceedings against the imports from several important Latin American countries. The Latins pointed to the action as one more instance in which the U.S. government had said one thing and done another. The State Department responded that the action had nothing to do with our Latin American policy; privately, officials concerned with our policy toward Latin America despaired of their ability to make good on the Secretary's promises.

A study of the countervailing duty cases against imports of Argentine and Brazilian non-rubber footwear and Colombian cut-flowers will suggest why it is that the United States government has difficulty conducting a coherent economic policy toward Latin America.

*Several of the individuals most helpful in the preparation of this report, because of their official positions, must accept my thanks without citation. I am indebted to Harold Berman, Stephen D. Krasner, Joseph S. Nye, Jr., and Robert A. Pastor for taking time to read critically previous versions of this summary and the paper on which it is based. Abraham F. Lowenthal provided invaluable advice throughout the project. Of course, I alone am responsible for errors of fact or interpretation.

¹The Secretary's statement and the text of the Declaration of Tlatelolco are in the *State Department Bulletin*, LXX: 1812 (March 18, 1974) pp. 257-264.

THE PROBLEM

Countervailing duties have become a problem in U.S. foreign policy because the rules of the international trading game are in flux, and there is no multilateral agreement on what constitutes "unfair" trading practices.² Among economists and politicians in the industrialized and developing nations, there exists considerable difference of opinion about the value and the virtue of programs to subsidize non-traditional export products.³ Developing nations face the serious difficulty of acquiring foreign exchange with which to pay for the importation of the capital equipment and technology necessary for economic growth. Although the developing countries traditionally have sought to conserve foreign exchange through domestic production of previously imported consumer goods, there are recognized disadvantages to dependence upon import substitution oriented development.⁴ More-

²Within the framework of the General Agreement on Tariffs and Trade (GATT), the term "unfair" trade practice has no inherent meaning. "In the broadest sense it could be interpreted to embrace not only violations of any GATT provision, but also any action taken by a GATT contracting party that nullifies or impairs any benefit accruing to another contracting party under the GATT or that impedes the attainment of any objective of the GATT." *Executive Branch GATT Studies* prepared for the Subcommittee on International Trade of the Senate Committee on Finance (Washington, 1974), p. 25.

³See Michael Rom, "GATT: Export Subsidies and Developing Countries," *Journal of World Trade Law*, Vol. 2 (1968) 544-565.

⁴"The real economic costs (of import substitution oriented development) have been very high in many cases. In respect of the foreign trade sector in particular, the rising level of imports needed as inputs for import substitutes has not alleviated the adverse balance of trade condition in many developing countries, and in some instances, has even created further strains on the foreign trade position." "Expansion of Exports by Developing Countries," *International Trade Forum*, Vol. X: No. 4 (Oct-Dec., 1974) p. 4.

over, because it is now evident that expansion of non-traditional exports can play an important role in a development program,⁵ the governments of many nations have adopted various subsidization schemes with which to support the production of manufactured goods—some of which enter the U.S. market as bounty-fed imports.

Traditional economic theory held that the benefits of international trade resulting from the principle of comparative advantage are threatened when governments tamper with the natural functioning of the marketplace through distorting mechanisms such as export subsidies. Two centuries ago Adam Smith charged that "The effect of bounties, like that of all the other expedients of the mercantile system, can only be to force the trade of a country into a channel much less advantageous than that in which it would naturally run of its own accord."⁶ Few economists today would trust the operation of free market forces to produce economic growth in the developing countries, and most would probably support various kinds of governmental intervention. Given the lack of international understanding as to what constitutes acceptable incentive practices, however, the United States government has maintained its right to protect domestic manufacturers, and it does so through numerous laws, one of which is the countervailing duty law.

THE LAW

Enacted by a protectionist Congress in 1897 to repair breaches of the U.S. tariff wall⁷ and found in essentially unaltered form until amended by the Trade Act of 1974 as Section 303 of the Tariff Act of 1930, this three sentence statute states, in effect, that

Whenever the Secretary of the Treasury finds that a bounty or grant has been paid, directly or indirectly, on any dutiable imported merchandise, he *shall* exact a countervailing duty equal to

⁵"Exports of manufactured goods can play an important role in industrial development by increasing foreign exchange earnings and enabling firms to use large scale production methods. . . . The expansion of exports makes possible specialization according to comparative advantage, production of product variety in individual firms, and participation in the international division of the production process by the productivity of parts and components for assembly abroad. Finally, familiarity with foreign markets and competition abroad will provide incentives for technological change and product improvement." Bela Belassa, *The Structure of Protection in Developing Countries* (Baltimore, 1971), p. 96.

⁶*An Inquiry Into the Nature and Causes of the Wealth of Nations*, ed. J. Rogers (Oxford, 1869), p. 80.

⁷Two previous countervailing duty statutes were limited to protecting U.S. sugar producers from foreign competition. See the Tariff Act of 1890, ch. 1244, sec. 237, 26 Stat. 584 and the Tariff Act of 1894, ch. 349, sec. 1, 28 Stat. 521.

the amount of such bounty or grant on each importation of the commodity in question.⁸

The law makes no provision for an injury finding, is saved from violating the General Agreement on Tariffs and Trade because of the GATT's "grandfather clause" which exempts pre-existing legislation,⁹ and is mandatory. Once the Secretary of the Treasury determines that a grant or bounty is being bestowed and estimates the amount thereof, he *must* impose the countervailing duty; the law allows for no executive discretion, and the duty cannot be removed until the foreign government eliminates the offending practice.¹⁰

THE PROCEDURE

The procedures for administering this simply stated law appear relatively clear cut. Although the statute authorizes the Treasury Department to open cases on its own initiative, the practice has been for the Bureau of Customs to respond only to petitions filed by U.S. manufacturers.

In order for the Customs Service to fulfill its responsibility for determining whether the complaint is substantive, information is sought informally

⁸See the Tariff Act of 1930, sec. 303, 19 U.S.C. sec. 1303 (1964). Section 303 has been amended by the Trade Act of 1974; see below footnotes 11, 13, 23, 24. Official discussions of the U.S. countervailing duty law are contained in "Countervailing Duties," prepared by the Department of the Treasury for inclusion in *United States International Economic Policy in an Interdependent World*, papers published by the Commission on International Trade and Investment Policy (Washington: Williams Commission, 1971), Vol. I, 409-419, and Matthew Marks, Remarks of the Deputy Assistant Secretary of the Treasury for Tariff and Trade Affairs, before the National Institute of Customs, Tariffs, and Trade of the American Bar Association, on "The Countervailing Duty and Anti-Dumping Laws as Effective Defenses Against Unfair Trade Practices Over the Next Decade," *Department of the Treasury News* (Washington, February 15, 1974). More extensive treatment of the law and procedures relating to it are in E. Bruce Butler, "Countervailing Duties and Export Subsidization: A Reemerging Issue in International Law," *Virginia Journal of International Law*, Vol. 9 (1968); Peter Buck Feller, "Mutiny Against the Bounty: An Examination of Subsidies, Border Tax Adjustments, and the Resurgence of the Countervailing Duty Law," *Law and Policy In International Business*, I (1969); Stanley D. Metzger, *Lowering Nontariff Barriers: U.S. Law, Practices, and Negotiating Objective* (Washington, 1974) 101-127.

⁹The U.S. is exempt from the GATT's Article VI, which permits the imposition of countervailing duties where subsidized imports injure or threaten to injure a domestic industry, by virtue of the "grandfather clause" in the Protocol of Provisional Application; the Protocol states that Part II of the GATT, which includes Article VI, shall be provisionally applied to the fullest extent not inconsistent with existing legislation. The 1897 law, which contains no injury requirement, is the GATT's Protocol of Provisional Application. Oct. 30, 1947, 61 Stat. A 2051 (1947, T.I.A.S. No. 1700, 55 U.N.T.S. 308. Also *Executive Branch GATT Studies*, p. 27.

¹⁰As amended by the Trade Act of 1974, the Secretary of the Treasury is given limited authority to waive imposition of the duties, subject to congressional override: see footnote 23.

from the relevant foreign government concerning any subsidy that supports the export in question; this information as well as that received from the complainant is the basis for a decision as to whether a formal investigation is appropriate. In the case of an affirmative decision, a "Notice of Countervailing Duty Proceedings" is published in the *Federal Register*, and interested parties are given thirty days in which to present views prior to the Secretary of the Treasury's final decision. If he finds that a bounty or grant is being bestowed, an order requiring the imposition of countervailing duties (effective in thirty days) is published in the *Customs Bulletin* and the *Federal Register*.¹¹ The amount of the duty is equal to the amount of the bounty or grant.

FOREIGN POLICY IMPLICATIONS AND PAST PRACTICE

Literally applied, the U.S. countervailing duty law, rather than serving its intended function of protecting domestic manufacturers against artificial export stimulants, would become a trade weapon with potentially unfortunate consequences for U.S. international economic relations. Indeed, the court itself noted in a recent decision that countervailing duties "are strong medicine, well calculated to arouse violent resentment. . . ." ¹² It was in part for such reasons that the GATT associated an injury finding with the imposition of countervailing duties; in the U.S. law, however, the Secretary of the Treasury is not authorized to consider the purpose for which a particular subsidy was established, its actual trade effect, or whether or not a domestic industry is suffering injury from the imports in question.

Clearly, then, the countervailing duty law goes to the heart of trade relations between nations, and it basically seeks to affect the economic policies of sovereign governments. Because those policies are sometimes considered vital elements in development programs, they are not easily changed and attacks upon them may be considered aggressive acts of economic hostility. Moreover, countervailing duty actions can introduce irritation into relations with otherwise friendly nations, and, in the case of Latin America, they call into question our expressed policy of being willing to cooperate in the development of the nations of the hemisphere.

Because of the multiple problems associated with administration of the countervailing duty law, the

Treasury Department has followed the unwritten and unpublicized practice of not acting on countervailing duty complaints when one of several conditions existed: 1) when the subsidy came within the GATT exception for remission of indirect taxes levied directly on the product, 2) when other protective measures were in effect, making countervailing duties redundant, 3) when the complaint was directed against a less developed country. That the Treasury Department was able to exercise discretion not granted to it by law was due to the lack of a time limit within which the investigation had to be carried out; without a time constraint, the Department was able to sit on petitions which, for policy reasons, it chose not to pursue.¹³ In effect, the Treasury Department had administered the countervailing duty law by weighing the interests involved and by taking foreign policy implications into consideration.

REVERSING PRACTICE

During 1973, a combination of pressures led the Treasury Department to begin administering the countervailing duty law more strictly than it had in the past and to move on a number of outstanding complaints. The countervailing duty actions were undertaken to fulfill two purposes: one was to allay congressional concern that the Department had not exercised sufficient vigor in administration of the current law; the other was to respond to court actions brought by lawyers for domestic industries anxious to compel the Treasury Department to act on their filed petitions.

Congress. Treasury concern about the legislature and legislative concern about the Department's administration of the law coalesced in the Senate Finance Committee and the House Ways and Means Committee. Both committees routinely deal with legislation of interest to the Treasury Department, which is therefore particularly open to pressure exerted by their members. This time, moreover, the Congress had a hostage—the Trade Reform Act. There was concern among Treasury Department

¹¹The Trade Act of 1974 provides that countervailing duty orders will go into effect immediately upon their publication in the *Federal Register*.

¹²*United States v. Hammond Lead Products, Inc.* 440 F2d 1031 (C.C.P.A. 1971).

¹³The Trade Act of 1974 stipulates that the Secretary of the Treasury has six months from date of petition in which to make a preliminary determination as to the existence of a bounty or grant; if the initial determination indicates the likely existence of a countervailable subsidy, the Secretary has another six months in which to negotiate with the foreign government concerned in an effort to obtain elimination of the offending practice. If the foreign government fails to take satisfactory action and the bounty or grant is still being bestowed at the conclusion of the second six month period, the Secretary is required to issue a positive countervailing duty determination. In addition, the time period for the countervailing duty investigation begins to run from the date the petition is presented to the Secretary, and notice of such petition is to be published in the *Federal Register*.

officials that failure to adhere strictly to current laws could result in a highly restrictive trade bill which, among other disadvantages, would limit the authority sought by the administration for its conduct in the multilateral trade negotiations. In addition, hearings on the trade bill began just as important stages were reached in several of the countervailing duty cases, and officials believed that in order to obtain discretion in the countervailing duty section of the new act, the Treasury Department would have to demonstrate that it was acting forcefully on outstanding complaints.¹⁴ In short, desired legislative outcomes were determined to be more important than the costs involved in possibly irritating governments against which countervailing duty action might be taken.

Courts. Through the captive trade reform act, the Congress worked its influence on the Treasury Department; a law suit was the vehicle for the judiciary's input. Convinced that the Department would not take action on its six year old complaint against the export restitution practices of the European Common Market, the dairy industry sought a *writ of mandamus* in Federal District Court.¹⁵ Represented by the Special Customs Section of the Justice Department's Civil Division, Treasury officials argued that proper jurisdiction belonged with the Customs Court; the District Court upheld its authority to hear the case, but also took notice of the fact that by then the Common Market had suspended the

offending practice.¹⁶ Although the writ was not issued, the important jurisdictional question had been settled; the Treasury Department anticipated (correctly) that lawyers for other complainants soon would be in court, and, that if the filed petitions were not acted on, writs would be issued. With the trade bill at stake in Congress and the possibility of court orders being issued to the Secretary of the Treasury, the Department began to move on several outstanding countervailing duty complaints.

THE LATIN AMERICAN CASES

Among the petitions on which the Treasury Department took action were two which involved Latin American products. One was filed by the American Footwear Industries Association in July, 1973 and alleged that bounties were being paid on non-rubber footwear imports from Brazil and Argentina. The notice of formal proceedings against Brazilian footwear imports into the United States was published in March, 1974, and countervailing duty rates were announced in September of that year. The notice of proceedings in the Argentine case was published in July, 1974, and a tentative negative finding was issued in February of 1975. In June of 1973 the American Society of Florists and Ornamental Horticulturalists filed a countervailing duty complaint against imports of cut-flowers from Colombia; formal proceedings notice was published in March, 1974, and in July of that year a negative finding was issued.¹⁷

Pressure from Congress and the courts restricted the options available to the Executive Branch, which in turn passed two choices on to the Latin Americans; eliminate the subsidy or have the exports countervailed. In so far as was possible, Treasury Department personnel, often with the assistance of their State Department colleagues, and in two cases with the cooperation of Washington

¹⁴That this concern was justified is revealed in the legislative history of the bill: "The Committee is concerned with the fact that the Administration has in the past utilized the lack of time limits in the existing statute to avoid the imposition of countervailing duties when such duties were required on the face of Section 303 of the Tariff Act." Thus in granting limited waiver authority, the Congress required not only that the adverse effects of the subsidy be alleviated, but that Congress have the opportunity to override each exercise of the waiver authority. Legislative History of P.L. 93-618 (Trade Act of 1974) in *U.S. Code, Congressional and Administrative News*, Vol. 14: Nov. 23, 1974-January 8, 1975 (West Publishing Co., 1975), 8380-8381. See also expressions of disapproval at the Treasury Department's administration of the law by Senators Paul Fannin and Herman Talmadge during hearings on the trade bill, in *The Trade Reform Act of 1973*, Hearings before the Committee on Finance of the U.S. Senate, Part I (Washington, 1974) 196, 226. Legislative concern with enforcement of the countervailing duty statute also emerged during the Simon confirmation hearings; see the exchange of letters contained in *Nominations of William E. Simon and David R. MacDonald*, hearings before the Senate Committee on Finance April 24, 1974 (Washington, 1974); MacDonald had been nominated for, and was subsequently confirmed as, Assistant Secretary of the Treasury for Enforcement, Tariff and Trade Affairs, and Operations, whose office was responsible for administration of the countervailing duty statute.

¹⁵A *writ of mandamus* is issued from a court commanding the official board or person to whom it is addressed to perform some specific legal duty to which the party applying for the writ is entitled of legal right to have performed: in essence, it commands a government official to take action which that official does not have discretion not to take, i.e. to perform what is essentially a ministerial, as opposed to a judgemental function.

¹⁶National Milk Producers Federation v. Schultz, in the District Court of the District of Columbia, Civil Action #1723-73, (September, 1973). On March 13, 1974, the District Court ruled against the Treasury Department; Treasury's request for leave to appeal was granted by the district court judge, but the Court of Appeals chose not to take the case; on July 16, 1974, the court took note of the fact that the offending practice had been suspended.

¹⁷On Brazil see 39 F(ederal) R(egister) 9213 (March 8, 1974); On Colombia 39 FR 9213 (March 8, 1974); the Brazilian and Colombian notices were published 4 days after Senate Hearings on the Trade Bill began (on March 4, 1974). For Argentina see 38 FR 26046 (July 16, 1974) and 40 FR 6993 (February 18, 1975); at the time the Argentine proceedings notice was published, the American Footwear Industries Association was in District Court seeking a *writ of mandamus*, American Footwear Industries Association v. Simon, District Court of the District of Columbia, C.A. # 74-612 (April 19, 1974).

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lawyers, worked with the foreign governments' officials in efforts to have the offending practices modified so as to eliminate the subsidy. Clearly, we cannot understand the final outcomes in these cases simply by evaluating decision-making processes in Washington. It is necessary to conceive of the countervailing duty cases as involving two major decisions: the first concerns the combination of pressures which led to a reversal of previous practice and to action on the complaints. In order to understand this change, it was necessary to consider the influence of Congress and the courts on the Executive Branch. The second decision is the final outcome, i.e. whether duties would be imposed, and if so, in what amount. This decision tells us less about U.S. decision-making processes than about the arrangements of political and economic power in the foreign countries. Although the inflexibility of the U.S. government defined the alternatives, the foreign governments had to react, and by choosing one alternative or the other, they determined the final outcome.

LATIN AMERICAN RESPONSES AND OUTCOMES

The responses of the foreign governments were shaped by their perceptions of the nature of the issue. At first, all three Latin American governments responded similarly, treating the problem as though it were a political one to be resolved through diplomacy and negotiation. It took time for the Latin American governments to learn that the countervailing duty cases were not similar to other problems in the trade field, such as textile arrangements and soluble coffee agreements. The countervailing duty law did not allow for executive consideration of foreign policy implications, and there was nothing to negotiate.

The perceptions of the Latin American governments were in large part shaped by the information they received from the major sources of communication about the issue: the U.S. and Latin American embassy personnel, and hired legal counsel. A variety of factors explain the differences in the importance of these actors from one case to the other. The Brazilian Embassy in Washington, which began serving as the key link between the U.S. and Brazilian governments on this issue, ended up on the margins of the action, perhaps because it was more closely aligned with the political position toward the problem adopted by the Brazilian Foreign Ministry than with the technical approach taken by the Finance Ministry. The U.S. Embassy in Brasilia thus carried the ball in terms of communication between the two governments because of a bureaucratic struggle for control of foreign economic policy within the Brazilian government.

The Argentine Ambassador in the United States assumed an important role in the proceedings against Argentine footwear; not only was the U.S. Embassy in Buenos Aires in no position to forcefully encourage the Argentine government to adopt measures which would have satisfied the Treasury Department, but the prestige and effectiveness in Washington of the Argentine Ambassador may have required an amicable solution to the problem, which, in effect, meant that Argentina had to eliminate the offending bounty to prevent or save the United States from having to take the diplomatically unfortunate step of countervailing against imports of Argentine footwear. The Ambassador apparently convinced key officials in his own government of the necessity to cooperate with the Treasury Department in this matter, and at the same time stressed to American officials the importance of giving the Argentine government time to come to a decision.

The U.S. Embassy in Bogota played a very supportive role in working with officials of the Colombian government to reach a satisfactory resolution of the matter, and in both the Brazilian and Colombian proceedings communication between the foreign government and the U.S. government was facilitated by Washington lawyers who had been retained by U.S. importers and Brazilian and Colombian exporters, but who served as informal advisors to the foreign governments.

Gradually all three Latin American governments came to recognize that cooperation in technical talks was necessary to prevent the imposition of high countervailing duties. The Latin American governments did not all take the same measures in the face of the countervailing duty threat, and the outcomes of the cases were not all alike. A new Colombian government was about to be installed when the proceedings were announced; the previous administration had begun an evaluation of the incentive system, and the new government was planning to introduce changes in the program when it assumed power.¹⁸ The Treasury Department refused to delay the proceedings until the change of government could be effected, and the Colombian government agreed to eliminate the bounty being paid to cut-flower producers.

The Brazilians, less able to disaggregate the benefits of the subsidy program and more wedded to it as a vital element in their development plan, provided the Treasury Department with information relevant to evaluation of the value of the grants being provided to the shoe producers. The infor-

¹⁸For a discussion of the Colombian incentive program see Jose D. Teigeiro and R. Anthony Elson, "The Export Promotion System and the Growth of Minor Exports in Colombia," *International Monetary Fund Staff Papers*, XX: 2 (July, 1973) 419-470.

mation proved that the value of the grants was not uniform, but that generally it was less than had been assumed. Although the Brazilian government refused to make adjustments in its incentive program, the imposed countervailing duties were lower than they would have been if the Treasury Department had been forced to rely only on information provided by the domestic complaints.¹⁹ The investigation in the Argentine proceedings revealed that payments made upon the exportation of non-rubber footwear would have constituted a bounty of approximately twenty-five percent of the dutiable value of the footwear. The Argentine government made changes in its incentive program which abolished for footwear producers the offending payments; thus, the Treasury Department was able to issue a tentative negative finding.²⁰

FUNCTIONAL PROBLEMS AND REGIONAL POLICY

The countervailing duty action was clearly inconsistent with the spirit, if not the letter, of the Tlatelolco policy address. When statements of government officials about our intentions, and our actions do not support each other, it is reasonable to seek an explanation. The countervailing duty proceedings suggest why Latin American policy in particular is often undermined by governmental action.

In terms of procedures and processes there was nothing particularly "Latin American" about the countervailing duty actions: the Latin American cases were treated no differently than were the petitions filed against imports from the Common Market, Spain, Italy, and Canada.²¹ Indeed, it is this very lack of individual consideration and, the economic, functional nature of many of the items on

¹⁹On Sept. 10, 1974, The Treasury Dept. announced the issuance of a countervailing duty order on imports of non-rubber footwear from Brazil; the duty rate was 12.3% for imports from manufacturers which export 40% or less of the value of their total sales and 4.8% on imports from those which export more than 40% of their total sales.

²⁰40 FR 6993 (February 18, 1975).

²¹The Canadians were particularly disturbed by the countervailing duty action taken against their tires imported into the U.S., arguing that the subsidies granted to the manufacturers were intended not to support exports per se but to develop the economically depressed region of Nova Scotia: since much of Canada's domestic production is exported into the U.S., the Canadians insisted that it was reasonable for the subsidized tires to be similarly exported without incurring the additional duty. Despite the fact that the subsidies were embedded in a regional development program, imports of the tires in question were countervailed. An interesting discussion of the case, which unfortunately does not explore the policy considerations that led to the Treasury Department's decision, is in Robert V. Guido and Michael F. Morrone, "The Michelin Decision: A Possible New Direction for U.S. Countervailing Duty Law. X-Radial Steel Belted Tires from Canada," *Law and Policy in International Business*, VI: 1 (Winter, 1974), 237-266.

the agenda of inter-American relations that explain in part why the U.S. government says one thing to the Latin Americans and then does something which is inconsistent with what has been said. Many of the U.S. government actions which affect Latin America are the result of either domestic or global considerations; for example, the consequences of countervailing duty proceedings for U.S. policy toward Latin America, or for Latin America itself were not considered important enough to offset the generalized interest in the trade bill or the impact of a possible court order.

Since it was obvious to Treasury officials that the U.S. government would proceed with the countervailing duty action, why did the State Department raise expectations at Tlatelolco which were difficult if not impossible to fulfill? Part of the answer lies in the process which led to action on the countervailing duty complaints as differentiated from that which led to the Tlatelolco policy statement. The role of the State Department in the two processes is illustrative of how an agency responsible for the formulation of regional policy may have little input into non-regionally oriented action decisions which nevertheless become part of our manifest policy toward a particular area of the world.

The law charges the Secretary of the Treasury—and he alone—with responsibility for administration of the countervailing duty statute. The Treasury decision to begin moving on outstanding complaints has been explored above; the reversal of past practice did not grow out of bureaucratic struggles in which interests were weighed and options considered. The State Department was on the margins of the action, relegated to facilitating communication between the Treasury Department and the foreign governments, and to putting the best face on the U.S. government's moves. The countervailing duty proceedings did not come to the State Department as an issue over which it could exert formal authority or informal pressure; conversely, the Tlatelolco address was a result of considerations confined to the State Department, and primarily to its Bureau of Inter-American Affairs (ARA). Although the regional bureau was able to have its policy position adopted as that of the State Department, it is in no position to force adherence to this policy on other executive agencies—which respond to their own statutory responsibilities and constituents, and which are governed by their own procedures. Therefore, although actions such as countervailing duty proceedings become the manifestation of our policy toward Latin America, those actions often do not, need not, and because of the law in this case *could not* conform with that policy as announced by the State Department.

Countervailing duties differ from many other issues in U.S. foreign economic policy in that the law is very clear in prohibiting the exercise of executive

discretion; however, as a problem, it is similar to others in which administrative authority for actions with important implications for regional foreign policy rests with agencies not primarily concerned with those implications. In the trade field such issues include strategic stockpile sales, the issuance of agricultural marketing orders, and generalized trade preferences. The countervailing duty cases and, more recently, the exclusion of OPEC nations from participation in our system of generalized trade preferences suggest that in the economic sphere the spirit of Tlatelolco may not be bright.²² Given that many of the important issues on the inter-American agenda are functional, that political power to decide their resolution in the U.S. rests with Congress and economic groups, that agencies concerned with them most often respond to domestic pressures or global concerns, and that decisions concerning them are outside the formal and often the informal influence of the regional bureau (the only actor with a strong stake in the success of the Tlatelolco policy), we can expect actions to continue to be inconsistent with expressed policy.

TOWARD COHERENCE?

Recognition that functional problems can confound regional policy already has led to steps intended to improve the likelihood of greater coherence in our foreign policy toward Latin America, at least in the trade field. In National Security Decision Memorandum 257, issued June 10, 1974, the President directed that Executive Branch agencies "cooperate in the development of the nations of the Hemisphere" by, among other things, consulting one another before any trade field action is taken by the U.S. government which would have a substantial direct and specific impact upon the economies of Latin American nations. In order to implement the NSDM, the Latin American Subgroup on Trade was established as a subgroup of the Steering Group for Trade Negotiations under the chairmanship of the Special Trade Representative. The Subgroup will be concerned with measures under consideration by Executive Branch agencies and departments, will assess their implications for Latin America, evaluate the effects on Latin America of alternative proposals, and will bring to the attention of the interagency mechanism coordinating the

²²One result of the Latin American reaction to the Trade Act of 1974 has been renewed efforts to develop the proposed sistema economico latinoamericano (SELAM); for description of those efforts and Latin American reaction to the Trade Act see *Latin America: A Weekly Political and Economic Report*, IX:2 (10 January, 1975) 9-10; IX: 3 (17 January 1975) 18, 20; IX:4 (24 January 1975) 25-26; (21 February 1975) 60-61; (14 March 1975) 85-87.

subject those measures favorable to Latin America. In addition, a Council on International Economic Policy memorandum issued in August called for an early warning system among government agencies concerned with trade policy, so that special attention on an interagency level could be given to practical measures designed to alleviate the adverse impact of U.S. actions on Latin America.

Although it is too soon to determine what effect the above measures will have on narrowing the gap between policy and action, we can speculate that their success in making our Latin American policy more coherent will be limited. The Subgroup is not a policy-making body; rather, it is expected that with the information provided by the group, policy-makers will be aware of the consequences to Latin America of a course of action being considered. Although it is probable that their awareness of the Latin American implications will increase, the thrust of this essay is that awareness alone will not make much of a difference. Policymakers who need information provided by the Subgroup will presumably be responding to either domestic pressures or global concerns, and whatever the impact of their actions on Latin America, it is not likely to have high priority in their considerations. If the U.S. commitments in the trade field are to be made effective, they will have to be backed, consistently, by high-level officials. The realities of U.S.-Latin American relations are such, however, that such attention and support are not to be expected. The measures thus far taken might help the Latin Americans receive more favorable treatment from U.S. government agencies; they might have some effect on the margins of our relations with Latin America, and perhaps that is the most that can or ought to be sought by way of increasing U.S. governmental attention to the region.

CONCLUDING OBSERVATIONS

In keeping with the Commission's mandate, it is important to ask whether other structural compositions, processes, or procedures would result in improved coherence or preferred outcomes. This question we explore through the historical record, and what we suggest about the future is to some extent a reflection of what we think about the past.

The problem in the countervailing duty cases was not basically with the organization of the government, and it is unlikely that a different organizational arrangement would have altered the outcomes. The generalized interest in the trade bill and the constraint on options imposed by the law would have been controlling no matter what the regional policy stakes, just as they were for coun-

tries in which there are important U.S. security concerns and enormous economic interests. If there was no discretion exercised in the handling of countervailing duty complaints against imports from Canada or Europe, no structural change would have provided sufficient political muscle to have forced accommodation in the Latin American cases. Unlike other issues in the trade field, the countervailing duty cases were conditioned by the language of the law.

If our action does not support our expressed policy, and our action is mandated by the law, the search for a corrective directs our attention first to the legislation. If a waiver clause had been provided allowing the executive to refrain from imposing the duties, diplomacy and negotiation would have been important as foreign and domestic interests struggled in the political arena. The outcomes might not have been different, but at least there would have been room to maneuver. Of course, to have discretion and not use it is to risk aggravating bilateral relations more than when the law mandates an undiplomatic act; and, the absence of a waiver clause depoliticizes the issue and shields the executive from the anger of those who could not muster the political pull to get the discretion exercised in their favor. On the other hand, inability to waive imposition of the duties for any reason prevents the executive from exercising leadership in the conduct of foreign affairs by removing from him the opportunity to establish priorities through the necessity to select from among competing interests. Thus, the lack of discretionary authority can produce a situation in which important general U.S. interests are compelled to be sacrificed to lesser, particular ones. Such was evidently the thinking of Congress in granting the administration some—though less than requested—discretion to waive imposition of countervailing duties when such action would jeopardize progress in the multilateral trade negotiations.²³ The entire countervailing duty issue, of course, will become much less serious if the negotiations achieve, and Congress approves, an international understanding as to what constitutes acceptable incentive practices.

²³Each of three conditions must exist in order for the Secretary of the Treasury to suspend imposition of the countervailing duties: 1. adequate steps must have been taken substantively to reduce or eliminate the adverse effect of the bounty or grant, 2. there must be a reasonable prospect that successful trade agreements will be entered into, under section 102 of the Trade Act, with foreign countries providing for the reduction of or elimination of nontariff barriers, and 3. the imposition of countervailing duties must be likely to seriously jeopardize the satisfactory completion of such negotiations. The suspension must be ended if any of the three conditions cease to exist, and such authority to waive the imposition of countervailing duties expires two years after the date of enactment of the bill. Trade Act of 1974 (P.L. 93-618; 88 Stat. 1978).

More important than the waiver clause is an injury finding, the lack of which raises the specter of the U.S. having to sacrifice important general interests for *no* domestic interest whatsoever. With respect to dutiable items, both the old law and the Trade Act of 1974 contain a statutory presumption of injury; the existence of bounties or grants is held to damage industries which are supposed to benefit from U.S. tariffs, and an injury finding thus becomes superfluous. Such an assumption does not take into account the various reasons for which subsidies are bestowed, but whatever the reasons an injury requirement would insure that if the U.S. has to take diplomatically unfortunate measures, it is at least doing so in response to the legitimate complaints of a suffering U.S. industry. It is evident, for example, that the U.S. shoe industry stood to gain little in the way of lasting benefit no matter what the Treasury Department did in the countervailing duty cases against Argentina and Brazil; increased imports from those countries have been at the expense of Spanish and Italian imports rather than domestic production, and in any case the problems of the U.S. shoe industry are only partly import related. It might be that an injury provision will be used as a negotiating device in efforts to achieve agreement on incentive practices; meanwhile, in terms of its injury requirement, the countervailing duty section of the Trade Act of 1974 is not much improved over the law passed almost eighty years ago.²⁴

Legislation is one problem; communication and awareness are others. Given the increasing importance of economic issues for regional policy, the flow of information between ARA and the Bureau of Economic and Business Affairs, and between the latter and other executive branch agencies, ought to be improved so that regional bureau personnel both in Washington and in the field would have a better understanding of the kinds of issues which will be taking up much more of their time in the future.

Some would argue that the countervailing duty action was not inconsistent with the Tlatelolco policy address, i.e. that there is no problem of coherence. They point to the escape clause in the Secretary's language, the promise to try to keep from imposing any "new" restrictions on Latin American access to the U.S. market; how, they ask,

²⁴The Trade Act of 1974 extends the application of countervailing duty law to duty-free articles, but no additional duty can be imposed on such articles unless the International Trade Commission determines (within three months of any final determination by the Secretary of the Treasury as to the existence of a bounty or grant) that a domestic producer of competitive articles is being or is likely to be injured, or is prevented from being established because of the importation of such articles. Thus, for duty-free items the U.S. law is made to accord with the GATT.

can an 1897 law be considered new? Moreover, it is suggested that the Latin Americans themselves are at fault for misinterpreting the policy statement, that it should never have been thought to be applicable where U.S. law compelled contrary action. Although the above arguments have validity, they ignore elements central to these cases in particular and to U.S.-Latin American relations in general.

We have already demonstrated that although the countervailing duty law has existed for better than three-quarters of a century, the proceedings in the Latin American cases were departures from the past practice of not acting on complaints directed against imports from developing nations; thus, the actions did constitute somewhat "new" restrictions. More importantly, even if the proceedings were not new restrictions technically, it seems unfortunate to have to justify them by pointing to the letter of a policy address, the whole purpose of which was to stress U.S. adoption of a new and more cooperative "spirit."

The staging of the Mexico City speech was designed to contribute to its acceptance in Latin America, and perhaps in Washington, as an accurate reflection of what could be expected from the United States government. It was, after all, a grand show, with important congressmen, high U.S. officials, and the Secretary of State all dedicating themselves to economic cooperation with Latin America. If the Latin Americans had been more familiar with the United States political system and with the workings of Washington's bureaucracies, they might very well have been more skeptical than they were; they would have realized, certainly, that the Secretary of State could speak only for his own department, not really for the Executive Branch as a whole, and surely not for the entire United States government. Of course, if State Department regional personnel were more familiar with political and economic realities in the nation's capital, they might have been able to adjudge better how far the American people, their representatives, and their government were willing to go in support of Latin America's economic development needs.

No policy address can change the basic asymmetry which characterizes and conditions U.S.-Latin American relations, an imbalance illustrated by the differential in attention given to the countervailing duty proceedings by political and bureaucratic actors in the United States versus those in Latin America. The countervailing duty issue was much more important in Bogota, Brasilia, and Buenos Aires than it was in Washington. To U.S. officials, the Latin American cases were not particularly important in and of themselves; rather, they were part of an effort to demonstrate Treasury Department willingness to administer the law with vigor. The

Latin Americans, however, perhaps saw and certainly treated the proceedings as efforts to affect their economic programs and development plans; the action was considered to be unfair given that the balance of trade with Latin America has long been favorable to the United States and unfortunate given the recent policy address in Mexico.

Indicative of the difference in substantive importance the proceedings had in the United States and in Latin America is the fact that they received much more sustained, high-level attention in the exporting nations. The Latin American cases did involve, though briefly, the U.S. Secretaries of State and Treasury, but in Latin America, the matter occasioned Presidential concern. The economic advisor to the President of Colombia flew to Washington three times to confer with Treasury Department officials about the cut-flower case. The President of Brazil apparently had to mediate between two top cabinet officers, each urging the adoption of a different approach to the problem. Several Argentine ministers exercised their influence in favor of preferred responses to the U.S. action before the President of that country signed a decree modifying the incentive program. Not only the attention to the proceedings but their impact was greater in Latin America. Relatively minor in terms of their economic or political importance in the United States, the Latin American countervailing duty cases occasioned high policy debates and created economic as well as political controversy in the exporting countries. The realities of the asymmetrical relationship are such that what is relatively minor in Washington can be of serious import in Latin America.

The Tlatelolco speech emphasized our willingness to recognize Latin American economic aspirations and to respond positively to them; it was, therefore, especially unfortunate that the first major U.S. action after the Mexico City meeting was taken under an internationally controversial law widely regarded as a trade weapon. That our action undermined our expressed policy was a result of the fragmentation of our decision-making processes. What was preventable, perhaps, was the raising of Latin American expectations about what the U.S. government would do beyond the possibilities of fulfillment. Latin America can not and probably should not receive much more high-level attention or resources from the United States government, but if expressed policy and governmental action are to be brought toward greater coherence, increased concern ought to be shown for the ways in which economic, political, and legal realities constrain what we as a nation are able and willing to do to support a particular foreign policy objective. If supportive action cannot be expected, expressing good intentions might not be good diplomacy.

Latin American Diplomats and the United States Foreign Policymaking Process

Roger E. Sack and Donald L. Wyman*
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Introduction

Although we know a good deal about the ways in which United States policies toward Latin America are formulated and implemented, little is known about the efforts of Latin American governments to influence the processes through which such policies are made. Our concern in this study has been the ways in which Latin American diplomats attempt to influence United States government policy processes in the area of "routine" economic relations.

According to the pluralistic model of United States government policymaking, well-organized special interests are more likely to secure favorable outcomes if their efforts are aimed at multiple access points. Moreover, such efforts are held to have a greater chance of success when the issues involved do not generate much public attention, as is often the case with "routine" economic issues. For United States-Latin American relations, Lowenthal asserts that "the United States foreign policymaking process is more open than most Latin American countries seem to realize to the influence of those able and willing to deal with the United States government in all its complexity." Latin American states which treat the United States government as if it were a unitary actor, or focus exclusively on the

goal-setting phase of United States policymaking and ignore Congress and departments other than State/AID and Defense, may be foregoing opportunities to learn about and possibly influence United States government policy. On the basis of these characteristics of the United States foreign policymaking process, we adopted the working hypothesis that if Latin American diplomats acted more like the representatives of domestic special interests, i.e., by paying attention to the various loci of power in the Executive and Legislative branches, they might be more successful in obtaining favorable treatment from the U.S. government. We were therefore interested in learning what concepts are held by Latin American diplomats about the United States policymaking process, how they operate in that process, and whether they believe they are able to affect policy outcomes.

Because this study takes as its primary source and focus Latin American embassy staff members serving in Washington, we begin with a relatively simple question: What is the chief function of an embassy in Washington? Simply answered, the answer is information and influence. An embassy seeks out relevant information for its government and attempts to influence the policy of the host government, often on the basis of the information it has obtained. For our purposes, an effective embassy is one in which the staff members are informed about the U.S. government system and about particular issues of importance to them; that they are talking to the "right" people (i.e., that their intelligence is good); that they are able to assess what people are in positions of power and responsibility on particular issues, and that they make efforts to reach these people; and that they are able to present arguments in the manner most likely to produce the desired

*This summary and the paper upon which it is based are the results of research conducted through interviews with numerous Latin American and U.S. government officials conducted in Washington, D.C. during the Fall of 1974. Certainly, not all interviewees would want to associate themselves with each of our generalizations or conclusions, and we recognize that exceptions exist to the patterns we have herein described. It was the usual, not the unique, that was our concern in the preparation of this report. To all those of whatever government who granted us interviews, and who must because of their official positions remain unnamed, we express our appreciation. Of course, we alone are responsible for the contents of this essay.

outcome. We have emphasized diplomatic technique rather than the achievement of particular desired outcomes, because such outcomes may well result from factors beyond the influence of the embassy or its government. Because it is at times impossible and generally very difficult for a Latin American government to act as a decisive factor in the United States decisionmaking process, even on issues which have serious implications for the particular country or region, we looked at effectiveness from the standpoint of efforts made to participate in the process.

Generalizations

Although the ways in which Latin American embassy personnel think of and approach the United States government vary considerably, two consistent and generalized patterns emerged from the interviews. In the first place, they do not think of the United States government as a monolith, or of the United States as a unitary actor; rather, they have a general understanding of our pluralistic system and recognize that U.S. foreign policy outcomes are the result of the interplay among various institutional actors. Second, they are overwhelmed by the plethora of organizations, institutions, agencies, and individuals concerned with United States foreign policy, and do not believe themselves to be very effective in gathering information on and influencing the decisionmaking process.

A hypothetical, composite Latin American diplomat would probably agree with the following points: that the policymaking process is not "permeable", i.e., that he cannot easily penetrate it; that private interests, particularly business, in the United States tend to be the most important influences in the governmental decisionmaking process; that the academic community, and especially the policy-research institute, exert a major influence on the overall orientation of U.S. foreign policy; that Latin America has a bad press in the United States and receives too little attention from the American public, press, and government; that United States Latin American policy tends to be merely a reflection of our changing concerns and interests elsewhere in the world, i.e., that we have no coherent "Latin American policy"; that Congress takes an almost perverse interest in the details of foreign policy and that Congress is the most difficult arena in which diplomats have to operate; and that the State Department is weaker than it ought to be vis-à-vis the other Executive departments of the government.

The above generalizations should not obscure

another characteristic which might appear to be somewhat contradictory: although Latin American diplomats have an accurate macro-level understanding of the complexity of the United States government policymaking process, they lack a sophisticated understanding of those processes: e.g., which agencies are responsible for particular bureaucratic missions, which individuals are key decisionmakers on different types of issues, what areas different congressional committees exercise jurisdiction over, or how key congressmen might be expected to react to different kinds of arguments. In short, the embassy personnel did not seem to possess a sophisticated understanding of the intricacies of the system, i.e., what good lobbyists or Washington insiders would be expected to know.

Interactions with United States Institutional Actors

The most striking characteristic of the way in which Latin American diplomats interact with the United States government is that they rely very heavily, and sometimes exclusively, on the State Department. This is, perhaps, in part, a consequence of the formal necessity of working through the State Department as well as of the fact that much of the world's diplomacy is traditionally conducted through ministries of foreign affairs. Unlike U.S. intergovernmental relations with Canada, Western Europe, or Japan, for Latin American governments, diplomatic channels remain the major mechanism for public and often private interaction with the United States. The network of informal and unofficial relations, the extra-governmental channels for communicating positions and exerting influence which facilitate United States relations with other regions are less well developed in the inter-American case. Also, we may speculate that the cultural norms of Latin America contribute to the formality of their diplomatic activity. Latin American diplomats seem to retain many of the 19th century practices according to which diplomacy was a formal and constrained activity which carried with it the obligation to conduct business with one's counterpart in the host government, rather than to deal with a variety of institutional actors. The result is that many embassy staffs restrict their U.S. government contacts to officials within the State Department, and, within the Department, to officers within the Bureau of Inter-American Affairs.

Despite this often self-imposed limitation of reliance on the State Department, Latin American officials perceive certain problems associated with a

sole dependence upon State as their source of information and means of influencing the United States decisionmaking process. First, the State Department is seen as weak vis-a-vis Congress and other Executive branch agencies, especially in the area of "routine" economic relations. As a consequence, the State Department often does not have the intragovernmental clout to bring about the outcomes which Latin American governments want. This may frequently be the case even where State advocates the Latin American position. Second, Latin America is a low priority area even within State, a condition Latin Americans admit is merely a reflection of its low priority in U.S. foreign affairs in general. As a result of these conditions, issues of concern to Latin America seldom receive the high-level Executive and Congressional attention which Latin Americans deem crucial to their successful resolution.

Latin American perceptions of both points seem to be substantially correct: the problem of rank and authority within the State Department and of State's power vis-a-vis other parts of the government has been the subject of numerous studies and both are under consideration by this Commission. Our research suggests that in terms of administrative action on a variety of routine economic issues, the State Department often is not a decisive actor, and sometimes not even a major influence.

Given this general appreciation of the reality of the United States policymaking process concerning Latin America, how do Latin American diplomats direct their efforts at the multiple access points in the Executive and Congress? Overall, they appear to do very little. The Treasury Department, for example, formulates international economic policy and administers the laws under which United States companies can seek relief from foreign competition. Although Latin American diplomats do contact Treasury officials when specific problems arise, they apparently make no systematic effort to establish ongoing relationships with officials in the relevant Treasury bureaus. They have, likewise, not attempted to cultivate similar systematic contacts with officials in the Department of Agriculture, with individual Congressmen, or with staff members of key committees.

A major theme to emerge from our research is that Latin American diplomats do not really understand the United States Congress: they find it almost impossible to keep abreast of its activities, and they have little formal and, perhaps, less informal contact with individual congressmen or their staffs. A number of diplomats admitted being struck by the fact that Congress, as they see it, acts "unnaturally," involving itself in the details of the implementation as well as in the goal-setting phase of

the foreign policymaking process. Congress as a whole and most congressmen individually are seen by Latin American diplomats as being ignorant and/or unconcerned about Latin American affairs. At the same time, however, the same diplomats perceive that congressmen think and act as though the region were a special preserve for U.S. private interests, and believe that it is in the protection of such private interests that the congressmen will act.

Congressional inattention is seen as deriving from the same source as press, public and executive inattention. At the heart of troubled U.S.-Latin American relations, the diplomats suggest, is the fact that no one who cares about Latin America is in a position of responsibility and power, and those who hold such positions do not care about Latin America. Therefore, the diplomats assert, in order for Latin American governments to get what they want from the United States, arguments must be presented in the form to which the U.S. government has traditionally responded, and may be still expected to respond. In other words, a Latin American government must have a *quid pro quo*, which has often been to raise the specter of internal disorder leading to radical social and economic change, communist subversion, and the penetration of extra-hemispheric powers.

It is, of course, not necessary for a Latin American government to raise the specter of communism in order to obtain favorable treatment from the United States government. Indeed, for routine economic issues, such arguments are generally inappropriate. A more productive tactic would be for a Latin American government to link its interest with those of powerful U.S. groups. A case in point is the defeat in the last session of Congress of an amendment to H.R. 1040 which called for the elimination of tax deductions for attendance at conventions and seminars held outside of the United States through a coalition of U.S. resort interests (in the countries affected, principally Mexico and the Caribbean), airlines, and the representatives of foreign governments which stood to be adversely affected by the measure.

Perhaps the most important asset a Latin American government can possess to promote its interests with the United States government is an exceptionally able ambassador. The record is replete with accounts of Latin American envoys, sometimes of small countries, whose diplomacy contributed significantly to the achievement of favorable outcomes for their countries. Such diplomats know their way around Washington, understand how to exert influence through official and informal channels, know the critical decisionmakers on particular issues, and use the media creatively. In sum, the creation or existence of a *quid pro quo* coalition with U.S. in-

terests or an effective ambassador can make the crucial difference in success or failure with the United States government.

While the above factors can positively affect Latin American diplomatic efforts in Washington, there is another side of the coin which constitutes a major liability: the overall quality of Latin American diplomatic personnel. Many Latin American missions in Washington seem to be staffed by non-professionals or semi-professional diplomats at best. Among the contributory factors which account for this situation is the inadequate training of many Latin American diplomatic services. Another factor is the still prevalent practice among a number of Latin American governments of using diplomatic posts as a form of "golden exile" for political opponents or as a reward for loyal service by regime stalwarts. Unfortunately, the practice extends through embassy staffs and is not confined to the highest positions in the mission. Since staff support can be important to the successful achievement of diplomatic tasks, the failure of Latin American governments to consistently assign their top people to an admittedly critical post is somewhat baffling, and is at least part of the reason for the failure of the embassies to be more effective than they are.

Concluding Observations

Our research has led us to conclude that Latin American diplomats are generally not functioning effectively in the United States. They are not monitoring the U.S. government and economy efficiently and are usually not making their influence felt in the right places. Instead of persistent and sustained efforts directed at the multiple access in the decisionmaking process, they seem lost in the bureaucratic and congressional morass of official Washington, apparently preferring to confine their contacts to familiar State Department officials. These deficiencies in performance are only part of the explanation as to why Latin America does not, in general, receive more favorable treatment from the United States government: the asymmetries in power that characterize inter-American relations leave Latin American diplomats with very little influence to wield.

It is our impression that Latin American diplomats generally subscribe to the "mind set" paradigm to explain United States policy towards their countries and regions: that examining organizational structures and bureaucratic politics is a fruitless exercise when neither U.S. officials nor the public take Latin America seriously in an overall context of domination-dependence. Yet the diplo-

mats seem to appreciate the "bureaucratic politics" paradigm of U.S.-Latin American relations, and they acknowledge their apparent failure to operate successfully in the U.S. policymaking process. They attribute this failure to insufficient resources and a lack of personnel to keep abreast of developments in a multitude of executive departments and congressional committees.

Although short on recommendations to improve the information and influence aspects of their task, several suggestions were made which, taken together, might be termed "positive clientilism," positive from the Latin American diplomatic perspective. Essentially, these suggestions call upon the United States to provide services intended to improve the Latin American diplomatic capability to operate in Washington. Such services might include information digests on bureaucratic and congressional developments which could affect Latin American interests.

All nations which maintain diplomatic relations with the United States must deal with an extremely complex host government. For Latin Americans who are acutely aware of the asymmetries of the inter-American relationship, it seems particularly strange for them to ask for what, in effect, amounts to an increase in their dependency on the U.S. by relying upon U.S.-provided information on which to base their diplomatic activities. Are not the Latin American "sardines" suggesting even more teeth for the U.S. "shark?"

The corollary of the first point is that it does not seem appropriate for the U.S. government to do the work of the foreign embassies with which it must deal. Would not the provision of such services give rise to fresh charges of intervention and manipulation from the very clients being serviced?

One diplomat summed up the problem of U.S.-Latin American economic relations by saying, "Our problem is to release ourselves from the obligations we have made in the past." But even if the burdens of history weigh too heavily to be lifted by mere diplomatic technique, the alert and skillful diplomat can lighten his country's load by playing an important role in monitoring and possibly modifying policies which emanate from a fragmented U.S. decision-making process. Ultimately, the Latin Americans might stand to make a proportionately larger impact on broad U.S. policy than on the margin in routine economic matters, but it is the implementation of broad policy, often international and much less Latin American in orientation, which may affect the Latin Americans most directly, and in which their diplomatic input can be immediately more effective. The injection of Latin American viewpoints into the U.S. decisionmaking process could convey clearly to U.S. policymakers the Latin

American implications of proposed courses of action. And, given the gap between U.S. Latin American policy and governmental action, an effect on the former would not necessarily guarantee improved treatment by the U.S. government on spe-

cific cases. Nevertheless, if Latin America is to, in fact, "take charge of its own future," it could do worse than to begin by trying to gain limited but specific outcomes from the pluralistic entity that is the United States government.

The Council of the Americas and the Formation of American Foreign Policy

Marie Thourson Jones
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The Council of the Americas is a business association of almost two hundred corporations linked by a common interest in Latin America. The Council, founded in 1964 by David Rockefeller and others, seeks to act as a conduit by which businessmen can interact with Latin Americans and the United States government. In the process, the Council (CoA) increases that flow of information between business and these other groups, and expands business input into the realm of policy formation. Although the Council claims that it does not itself take stands, CoA does issue its own policy statements and testify in Congress.

The Council tends to be interested in questions which are general and future-oriented. Especially in the past year or two, the CoA has tried to influence policy in its formative stage. This organization does not generally intervene for specific member companies, who feel better able to handle their own specific problems, but rather concentrates its attention on problems of broader interest.

In recent years the Council as an organization has taken stands:

- (a) in favor of trade preferences for Latin American nations;
- (b) for more flexibility in the Gonzalez and Hickenlooper Amendments;
- (c) against restrictions on foreign investment in LA (e.g. the Andean Common Market's Decision 24);
- (d) in favor of OPIC;
- (e) against US government actions to protest Brazil's Fifth Institutional Act;
- (f) in favor of continued and increased aid to Latin America.

The beauty of the Council's structure is that it can act as a channel for information and for business input into policy formation even when its members are not relatively unified, or on technical questions.

In such cases the Council may arrange seminars where members speak directly to Latin American or U.S. officials. The Council's current working groups on science and technology and investment dispute mechanisms, for example, provide a forum for the transmission of detailed information on specific proposals.

The Council sponsors and participates in a broad range of activities which can be summarized as follows:

- 1). Publications to inform LA of U.S. business aims, to inform businessmen of LA regulations and business practices, to inform the interested public (including the U.S. government) of CoA's interpretation of the impact of U.S. business on Latin America.
- 2). Meetings with LA businessmen and government officials—to exchange views and information and to try to "adjust" detrimental policies. They also sponsor Technical Task Forces through which executives offer advice to Latin governments and businesses.
- 3). Formal and informal meetings with U.S. government officials—to exchange information and attempt to influence policy.
- 4). Attendance at international meetings, such as sessions of InterAmerican EcoSoc, and the OAS.
- 5). Testimony in Congress.

Organization. Since its creation in 1964, CoA has undergone several internal reorganizations. At this time the Council consists of a core staff in New York and Washington, supplemented by a Board of Trustees, Executive Committee, and a Steering Committee, all composed of corporate executives. With general approval of the Trustees, the staff organizes and coordinates activities directed at businessmen, Latin Americans, and U.S. officials. Much of the day-to-day contact with the U.S.—and

this includes arranging meetings, sending and soliciting information, and participating in meetings—is handled by the Washington office. The Trustees call on high government officials (including the President), and corporate representatives participate in briefings and meetings. Nonetheless, the Washington office is able to maintain more constant contact and follow up than these member delegations.

In mid-1973, the Trustees met with President Nixon and received his approval of an idea to establish advisory committees to the U.S., particularly the State Department, to deal with certain topics of interest to Latin Americans, businessmen, and the U.S. Many of the topics are those proposed by the Latin American Foreign Ministers at recent meetings. To date, there are four such working groups: Science and Technology, Investment Dispute Mechanisms, Extraterritorial Application of U.S. Laws, and Raw Materials and Energy. The general format of activity is that the groups meet with counterparts in State and the Executive Branch to set an agenda. Corporation representatives in the working groups (there appears to be a fluctuating membership of about twenty on each) prepare papers addressing the problems agreed upon. Government officials may then take this into account in the formulation of their own position papers for the formal U.S.-LA Working Groups requested by the Foreign Ministers. The feeling of Council members interviewed is that, for example, American businesses hold the technology which the U.S. and LA governments want transferred. Therefore business must have an input into the development of the relevant policy.

Nature and Components of Council Influence. When one begins to examine specific cases, the Council has not had an unqualified string of policy successes. Indeed, the Council has been unsuccessful in promoting trade preferences and flexibility in the Gonzalez and Hickenlooper Amendments, although, to be fair, they have not mounted major campaigns on these issues. Where CoA does seem to be successful is in helping maintain a preference in the U.S. for a “healthy investment climate” in Latin America. Part of this concern on the part of government officials stems from certain basic assumptions about the contribution which private capital can make in the development process, indeed, the *necessary* role of private, foreign capital. The Council, as well as individual corporations, seeks to reinforce this belief and to preserve it as one of the criteria in U.S.-LA relations. According

to one informant, at the time of the Fifth Institutional Act in Brazil, the Council suggested that the United States should not intervene where the economic conditions were so favorable. One other way in which the Council and its members may be successful in influencing U.S. policy, especially in the future, is on technical clauses of new policies such as the transfer of technology. Finally, CoA, like individual businesses, has an indirect impact on U.S. actions through its conduct of its own “foreign policy.” That is, many Latins see high level U.S. business-government connections, and thus may interpret business stands as reflective of those of the U.S. government, particularly if the U.S. itself does not take a clear stand. Apparently this is what happened on the Andean Common Market Decision 24.

What are the bases of Council influence? Basically, they include the size of the group, that is, the concentration of around 90% of U.S. equity in LA represented as members of CoA; the important role of business in U.S. society and politics; the permanent nature of the Council; its reputation, and the *quid pro quos* it can offer the government. Examples of such *quid pro quos* include testimony in Congress, and possible participation in transfer of technology arrangements. The permanent nature of the Council is important because it facilitates follow up to ideas, suggestions, and meetings, and because it makes the Council a convenient channel of information for both businessmen and government officials to tap. One final bargaining point that the Council, or Council members, have, is a sizable, visible, and legitimate interest in Latin America. Other groups, no matter how noble their goals, simply do not have such concrete interests which they can point to.

Organizational Implications. Above all, the Council offers a model for other groups seeking to enter the U.S. policy process. What such groups need is a central coordinating office with a small staff, to aid them in following up their policy initiatives, maintaining a steady flow of information to and from the U.S., and determining which offices and individuals they should talk to. Such a coordinating committee would lack the kind of “clout” that business has, but should substantially improve the amount and impact of private group (non-business) input into the foreign policy process. A major revision of the U.S. foreign policy system might include seed money to encourage the formation of such a coordinating committee, although ultimately it would have to become self-sustaining.

U.S.-Brazil Relations: Non-Governmental Organizations and the Fifth Institutional Act

Harry Weiner
December 1974

Other papers prepared under this research project examine the role of Congress, and of economic interest groups in exerting influence on decision making in the executive branch of the U.S. Government with regard to policy toward Latin America. This paper analyzes to what extent the U.S. foreign policy-making structure is permeable to the influence of non-governmental groups that do not have specific business or economic interests. The organizational ramifications center on the feasibility and desirability of altering current structures and procedures to achieve greater equality among different kinds of private groups while enabling the government to receive new ideas on particular policy problems.

The case examined is that of U.S. policy toward Brazil in the first half of 1969 as it was affected by the aftermath of the Fifth Institutional Act of December 13, 1968. In this period, a variety of information and influence was directed at the U.S. Government by U.S. private citizens and organizations, mostly with the intent of achieving an official U.S. policy which might cause the government of Brazil to change or ameliorate its internal security policy.

Finding There was surprisingly little effort at exerting direct influence on the Bureau of Inter-American Affairs, a combined bureau of A.I.D. and State, notwithstanding that it would not have been difficult to discover that the key decision to be made (whether or not to release a tranche of an already-approved loan) largely lay with a small and accessible group of officials in that bureau. That an important decision was pending was pointed out and often repeated at the hearings held in February, March, and April by the subcommittee on Inter-American Affairs of the House Committee on For-

eign Affairs. Such efforts as were made had little effect on the outcome of the debate within the bureaucracy; few of the officials involved conceived of the outside groups as having any real legitimacy. The outside groups were thought of by the government officials as having special and narrow policy axes to grind and as being insensitive to the broad scope of the problem. Further, the outside groups had little sense of where decision-making power lay in the Bureau, of what the motives and incentives were for the groups and individuals involved, and even less did they have strategies for manipulating those motives and incentives. They relied on some ideal of "justice" and the "right thing to do."

Recommendation with Regard to Organization In the interests of equity among different kinds of interest groups and of providing useful information to decisionmakers that might not be available from regular channels, a mechanism should be created in the Bureau of Inter-American Affairs to gather and disseminate within the Bureau the views of non-economic and business interest groups. The present responsibility for this function lies with a Special Assistant, who has occupied the position through many years and several Assistant Secretaries. Placing this responsibility in a Special Assistant would seem to require that to be effective he would have to be one of the Assistant Secretary's closest associates, willing to have his own performance evaluated in parallel to that of the Assistant Secretary. He might serve as the Assistant Secretary's link to groups of all kinds outside the government. Probably he should not be a career governmental official, rather he might come from the non-governmental foreign affairs community and expect to return there when his government service was done.

An alternative would be an active advisory group

to the Bureau, but the history of such groups thus far is not encouraging with regard to independent and energetic action. Several bureaus have had such advisory groups; they seem to verge on the ceremonial rather than the operational, largely because they do not have the constant presence on the Washington scene that is necessary for effectiveness.

As the decade of the 1960's drew toward its end, relations between the United States and Brazil were changing steadily from that of patron-client into the direction of greater equality. There were a number of reasons: 1) the economic health of Brazil had substantially improved, especially with regard to the rate of growth; 2) the requirements on the United States to finance the Vietnam war decreased the resources available to most other areas of governmental activity, including bilateral assistance; 3) Brazilian nationalism, which had experienced a dip in the mid-60's, re-expressed itself, notwithstanding that the government was non-elected and military; 4) on the U.S. side, the cast of characters involved in the relationship was to a considerable extent a new one, without responsibility for having helped the Brazilian regime to have come into being, and therefore without personal or professional responsibility for maintaining a status quo or slowing any rate of change. Lincoln Gordon, who was U.S. Ambassador to Brazil from October 1961 to February 1966 and thereafter Assistant Secretary of State for Inter-American Affairs until June 1967, had returned to academic life. The U.S. Ambassador, John C. Tuthill, had no previous ties with Brazil nor even Latin America, having spent most of his career at European posts and in the Bureau of European Affairs of the Department of State. His political counselor, Frank C. Carlucci III, had had most of his experience in Africa. There were similar changes at lower levels.

An important element of U.S.-Brazil relations after 1964 lay in the embarrassment to the United States at being closely allied with a non-democratic government, and the constant fear that this embarrassment might suddenly grow through some increase in the magnitude of the arbitrary measures by which the government exercised its powers. On the other side of the equation was the necessity to maintain friendly ties with the largest nation in the hemisphere and the only potential world power in Latin America. Thus, U.S. analysts looked at each political event in Brazil through the framework that posed the questions: How repressive is this latest event? Is the repression likely to worsen? Does the U.S. government have to do anything about it? Can it do anything?

A growing tension between the Brazilian regime and the Brazilian clergy and university students in the period of 1965-66 put some pressure on the

United States government to stand back from its closeness to the Brazilian government but not enough to bring about any specific reaction. Brazil's Congressional elections in 1966, despite very strong pressure from the regime, did not result in gains that could in any way be interpreted as a mandate to the military. The government party increased the number of its seats in the Chamber of Deputies from 254 to 277; the opposition declined only from 150 to 132. In reaction, the military early in 1967 forced the Congress to promulgate a new Constitution which conferred on the executive branch almost unlimited power, but had the effect of making the military subject to severe ridicule, reaching a level considerably higher than previously. A war of snickers between the military and civilians waxed, perhaps as a substitute for more normal political life. In August 1968, an opposition Congressman called upon his countrymen to boycott the military and asked Brazilian parents to forbid fraternization of their daughters with members of the armed forces. This Brazilian penchant for mordant humor did not amuse the military. Pressure was brought upon the Congress to lift immunity from the Congressman so that he could be prosecuted. On December 12, 1968 the Congress voted down a bill to remove immunity, 216 to 141. It is almost certain that the President, Arthur da Costa e Silva, would have been deposed by military hard-liners, even though he was an Army Marshal, had he not agreed the next day to the Fifth Institutional Act, by far the most repressive measure since the military came to power in 1964. Congress was closed; habeas corpus was suspended; a new list was published of persons who were prohibited from engaging in political activity, and the President was authorized to exert federal power in virtually any situation in which he felt it necessary. Most important, physical mistreatment of political prisoners, which had occurred to some extent in the early years of the regime, accelerated from this point to a degree that could not be ignored by the United States.

As might have been expected, news of the Fifth Institutional Act and of the subsequent repressive measures, especially torture, spread widely outside Brazil. Both inside and outside the U.S. government, those with a stake or an interest in U.S. policy toward Brazil began to think about whether the U.S. government could and should do anything about it, and what instruments were available to the U.S. government for exerting pressure on the Brazilian government.

The principal lever for the exertion of U.S. influence on the Brazilian government was the program of financial aid. Although the level of aid by 1968 had declined somewhat from previous years, at \$187.7 million it was a large amount by any stan-

dard. Only one day before the Fifth Institutional Act, the chief of the A.I.D. mission in Brazil had made a routine but required certification to Washington that the Brazilian government had met all the economic performance conditions required for the release of a \$50 million portion of the loan. One A.I.D. official called the situation "the obscenity of dates." It almost certainly indicated that the Embassy's political analysis section and the A.I.D. mission were not in close consultation. At any rate, within a week, this \$50 million, plus everything additional already authorized, was frozen while within the United States government there began a debate on how to react to the repressive measures of the Brazilian government. This debate went on from December 1968 through May 1969; its termination date set largely by the new fiscal year and by the preparations of New York Governor Nelson Rockefeller to lead a mission to Latin America in behalf of the new Republican administration.

The Official Debate: A Bureaucratic Map The ambit in which the question of whether and how to use U.S. aid as a lever on Brazil's internal security policy consisted mainly of the field and Washington offices of the Department of State and the Agency for International Development. The National Security Council staff, the Department of Defense, and the Department of the Treasury, all usually much concerned with policy toward Brazil, were less so at this time. The NSC staff was soon to play an important role in U.S. policy towards Latin America, but in late 1968 and early 1969 Henry Kissinger had not yet put his people in place. Latin American affairs were handled temporarily by an able but relatively young (38) and junior (Class 2) Foreign Service Officer, Samuel W. Lewis, seconded from the Office of Brazilian Affairs in the Department of State's Bureau of Inter-American Affairs, and who left the National Security Council staff after a stint of six months. His successor was to be a Class 1 officer who had been Acting Assistant Secretary.

Within the Department of State, there were a number of focal points. One was the Embassy itself, in Rio de Janeiro, headed by Ambassador Tuthill. Another was the Office of the Assistant Secretary for Inter-American Affairs, who was Covey T. Oliver, until the inauguration of the new President in January. Oliver also held the A.I.D. title of U.S. Coordinator for the Alliance for Progress, since State and A.I.D. had then, as they do now, a "combined" Latin American bureau which is joined at the top in the person of the Assistant Secretary-U.S. Coordinator. Another was the Office of Regional Economic Policy, where responsibility for Brazil lay with Deputy Director John Krizay and his superior, Deputy Assistant Secretary Donald K. Palmer.

On the A.I.D. side, William A. Ellis was the director of that agency's mission in Brazil. Part of the "country team" and therefore theoretically subject to the ambassador's control, nonetheless, as A.I.D. mission director, he, like most other chief representatives of U.S. agencies (other than the Department of State) at any U.S. embassy, had a reporting channel, a chain of command, and, most important, was part of a system for evaluating and rewarding his performance that was largely independent of the ambassador. Organizationally, he was more a representative of his agency to the ambassador than he was a member of the ambassador's staff. The top A.I.D. official for Latin America in Washington under the Assistant Secretary bore the title "Deputy U.S. Coordinator", the incumbent being James R. Fowler. The most important operating office on the A.I.D. side of the Bureau was the Office of Development Programs, the director of which was Jack I. Heller. This office had just been created in mid-December 1968 as part of a major reorganization of the A.I.D. offices in the Latin American Bureau, the chief purpose of which was to raise to Deputy Assistant Secretary level an A.I.D. officer, Robert E. Culbertson, to be in charge of "social and civic development". As part of this reorganization, the Office of Development Programs became a regional, rather than a country-oriented, office, roughly the counterpart of the Bureau's Office of Regional Economic Policy, which was dominated by State Officers.

This A.I.D. regional program office headed by Heller, and the State Regional Economic Office, represented by John Krizay, took opposite views on the question of whether loans to Brazil should be held up as a means of affecting Brazil's internal security programs. Heller's view was that the larger objectives of the A.I.D. program were made impossible to achieve by the Fifth Institutional Act and its aftermath; Krizay's was that this was a domestic concern of Brazil's and that the U.S. government should concern itself primarily with whether Brazil was meeting the economic performance criteria which had been established as pre-requisite to loans. Since the criteria were being met, there was no reason to stand in the way of the normal flow of loan funds and other technical assistance.

Ambassador Tuthill's view was close to that of Heller's, notwithstanding that he had the personal responsibility for maintaining good relations on behalf of the U.S. government. Tuthill was in close accord on this question with his political counselor, Frank C. Carlucci III. This view was referred to by its opponents as "hawkish" and "punitive". The A.I.D. mission director, William Ellis, while not so definite in his views as Krizay, nonetheless considered himself to be in the business of carrying on an

aid program. His staff, and the dollar amount of loans, was the largest A.I.D. operation in the world, except for South Vietnam and India, and he wanted to keep them at work.

Between the overthrow of the Goulart government by the Brazilian armed forces in March 1964, and the end of the decade of the sixties, the United States disbursed to Brazil, on easy terms and grants, about one billion dollars, exclusive of commodities. The largest single year amount was \$242.3 million in 1966; in 1968-69 the amount was \$187.7 million, of which all but \$11.7 million was in program loans, that is, loans directed at general budget support of the federal government to support imports, as differentiated from "project" or "sector" loans. Program loans were customarily released in portions called "tranches". These were released upon "certification" by the Embassy in Rio that economic performance criteria by the federal government had been met. The Brazilian government began to press the U.S. to release the \$50 million tranche, since it was this money that the Brazilians depended upon to support the year-end "13th month" salary bonus.

Conciliating the views of the different groups and viewpoints within the Bureau fell to the Office of Brazilian Affairs, under Country Director Jack B. Kubisch. The country directorate was dubious about the "tough" line of Ambassador Tuthill, an unusual position vis-à-vis the ambassador at a Class I post. (The Department of State divides its embassies into four classes, depending on the size, population, and importance of the host country.)

Looming large behind these bureaucratic divisions and positions was the new administration of Richard M. Nixon, preparing to take office on January 20. Two major Latin American issues faced it: the International Petroleum Company Case in Peru and the A.I.D. "review" of its Brazil program. That the Latin American policy of the new administration would be attuned to U.S. business was not hard to divine, given Mr. Nixon's antecedents. In the case of Brazil, this would mean releasing the loan, since the Brazilian Government was on excellent terms with most U.S. business interests in Brazil, in contrast to the situation that had prevailed under the preceding regime of Joao Goulart.

Indeed, the outcome was not difficult to foresee. After many meetings, discussions, consideration of position papers, the 50 million dollar tranche was released in March 1969, accompanied by relatively inconsequential "signals" of U.S. displeasure with Brazilian repression; also a somewhat vague Brazilian request for the transfer of U.S. destroyer escorts to the Brazilian Navy was delayed indefinitely, again with a signal that this decision was associated with Brazilian internal security measures. It is true that there have been no subsequent program loans,

probably as much a function of strong performance of the Brazilian economy as the result of the Fifth Institutional Act.

Another factor contributing to the decision not to try to twist the Brazilian arm was the close rapport between Senator J. William Fulbright, Chairman of the Senate Foreign Relations Committee, and Under Secretary Elliot L. Richardson. At ARA's behest, Richardson advocated release of the tranche to Fulbright, who, in turn, advocated the same policy to those of his colleagues, who were to some degree on the fence.

The Non-Governmental Groups and Their Attempts to Influence Policy

The Inter-American Press Association: This group's approach to Department of State can be said to have been more "for the record" than a direct approach. The Bureau of Inter-American Affairs was provided with copies of telegrams sent to the Brazilian government and reported in the U.S. press. On December 16, and again February 1, telegrams were sent protesting the mistreatment of Brazilian journalists under the Fifth Institutional Act. These came from the Executive Committee of the Association, the chairman of which was Robert Brown, an American who was publisher of *Editor and Publisher* magazine, and Tom C. Harris, another American who was chairman of the subcommittee on freedom of the press. He was executive director of *El Mundo* of San Juan, Puerto Rico. Mr. Harris also called on the American Embassy in Rio on January 9, and on officials of the Brazilian government.

These efforts, like many of those of non-governmental groups, were aimed to protest the situations of particular individuals, in this case Mrs. Niomar Moniz Sodre Bittencourt, publisher of the Rio daily *Correio da Manhã*, and Osvaldo Peralva, the newspaper's managing editor. They had been arrested in early January and sentenced to 30 days in prison for having published a list of persons seized in December under the Institutional Act. The telegrams also referred to the mistreatment of other Brazilian journalists. Three further representations of this kind were made in the next three months.

U.S. Academic Community. In late May, a cablegram was sent to President Costa e Silva from the Latin American Studies Association, signed by 78 American professors. The telegram protested the forceable retirement of 68 Brazilian University professors. Perhaps the most noteworthy thing about the telegram was that it included the signature of Lincoln Gordon, President of Johns Hopkins University. Gordon had been Ambassador to Brazil from 1961 to 1966 and Assistant Secretary of State for

Inter-American Affairs until early 1967. He had been a strong supporter of the military regime that was established following the ouster of President Joao Goulart in March 1964.

Gordon told the *New York Times*, referring to his signing of the telegram "my objection to the removal of the professors is part of my general feeling of grave concern over the arbitrary use of power in Brazil since December". Other prominent signers were Professor John Johnson of the Latin American studies program at Stanford University and Charles Wagley, head of a similar program at Columbia University. A similar telegram was sent by 283 scholars from a broader range of intellectual disciplines, drafted by a committee that included Professor Alex Inkeles of Harvard and Myron Weiner of the Massachusetts Institute of Technology.

Dr. Gordon, during the period of debate over whether and how to use the aid program as a lever on the Brazilian government, visited the Bureau of Inter-American Affairs several times as an informal consultant. The position he took there was that the Brazilians should be made aware of U.S. displeasure at the repression, but that this should not be done at the cost of injuring Brazilian economic development. The loans that were prepared in the spring of 1969 for the following fiscal year were "sector" rather than "program" loans; that is, they focused on particular problems, such as sewage, schools, health delivery, thus resembling somewhat the "islands of sanity" loan program that Gordon had developed in the Goulart period which attempted to keep the money away from the federal government and put it in hands that were less overtly political.

Two American professors who made some attempt at making their anti-repression views known directly to the Bureau of Inter-American Affairs were Henry J. Steiner and David M. Trubek, of the faculties of law at Harvard and Yale Universities, respectively. Trubek had earlier worked for A.I.D. in Brazil. Together they wrote an article entitled "Brazil: All Power to the Generals" which was published in *Foreign Affairs* in April 1971. In the spring of 1969, Mr. Steiner made telephone calls to a number of officers of the Bureau, whom he knew personally, to set forth his view that the Brazilian government should be denied loans and grants until it took some positive action to restore personal liberties. When asked his view of where the pressure points lay in the Bureau, and where he thought his efforts had the greatest chance of finding receptivity, Mr. Steiner told this writer that he did not know enough about State Department organization to make such distinctions, nor did he envision any particular group within the Bureau as supporting his view and therefore deserving of his concentrated support.

Religious Organizations The National Council of Churches in New York City made a number of direct contacts with officials of the Bureau of Inter-American Affairs in the first part of 1969. Members of Congress also were called upon. The Council maintains a small professional staff with responsibilities for government relations. The degree of activity depends somewhat on the individual officer; Latin America is a particularly active area insofar as determined projection of the Council's views are concerned. The staff officer of the Council called on the country director for Brazil several times. His argument, presented orally and in writing, was that the United States government itself was bound by treaty to adhere to standards of behavior which specifically forbade torture as an instrument of political repression and that to assist a government, through loans and grants, that was engaging in, or sanctioning, torture, put the United States in the position of violating international law and custom. The council staff officer was received politely and accorded time to make his case, but he holds the belief that his ability to shape events was minimal. "The desk officers thought of me as a pain in the butt that they had to tolerate in the interests of maintaining good public relations." The staff officer believes that his representations might have been more effective if the Department of State's organization had provided then, as it does now, an officer in the office of the Legal Adviser to the Secretary with specific responsibility for "human rights". (This officer is one of fifteen Assistant Legal Advisers.) The council's staff officer believes that an officer within the organizational structure, notwithstanding his junior rank, could have brought important pressure to bear in the direction of withholding the loan tranche as a means of exerting influence on the Brazilian government. As it was, however, he believes the Council's influence in 1969 was very small.

Similar approaches were made to the Bureau, mostly at the Office of Brazilian Affairs, by the Latin American Affairs Office of the Methodist Church, with offices in New York, and the Latin American Regional Director of Catholic Relief Services, also in New York. Neither believe they were particularly effective.

The Latin American Strategy Committee, organized in 1967, was an inter-denominational group of clergymen concerned with U.S. policy toward Latin America. Two of its organizers were Dr. Brady Tyson, a Methodist minister who also held an academic appointment at American University, and Rabbi Morton Rosenthal, of the Anti-Defamation League. The Committee met several times in 1968 and early 1969 with Assistant Secretary Covey Oliver. They discussed the situation in Brazil, the churchmen being especially interested in violations

of human rights. They urged that threatening to withhold the loan be used as a means of exerting ameliorating influence on the Brazilians. Assessing their effectiveness in retrospect, members of the Committee believe that although they were received cordially and were allowed almost unlimited time for the presentation of their case, they had no appreciable influence. Members of the Committee describe their efforts as "inept" and believe now that representations to the Department that are not backed up by Congressional pressure have little chance of having any important effect. Their perceptions are accurate; the officers of the Bureau generally holding the belief that outside interest groups hold a narrow and institutionally self-serving view of problems facing the government.

It is difficult to account for the relative paucity of attempts by non-governmental, non-economic groups to make representations to the Bureau of Inter-American Affairs or to other parts of the Department. The evidence of this case points to a lack of policy orientation by such groups, and a tendency to "ad hoc-ism"—they focus on the short-term problems of particular individuals at a particular moment. Their view of the Department of State is that it is an ideological monolith, dedicated above all to the status quo, the status quo to be deviated

from only to protect the interests of U.S. business. Foreign Service Officers are thought of as risk-averse bureaucrats whose plan is to earn promotion by avoiding controversy. Although such a view of the policymaking apparatus seems to call for strategies of exerting influence that would persuade decisionmakers that they imperil their careers if they do not take into account the views of the nongovernmental, non-economic groups, those groups nonetheless place primary reliance for effectiveness of the existence of a sense of justice and ethics in the officers with whom they deal. At the same time, they often include in their membership highly capable analysts and have channels of information that are not duplicated in the government. Their members know people and organizations whose views and positions are too far from the seats of power to be accounted for by the official U.S. diplomatic establishment. When power shifts occur, the U.S. government might be less frequently left unprepared if it were better organized to received inputs from across a wider range of sources than at present. The organizational problem thus seems not only one of equity but also of self-denial by the U.S. government of important information and viewpoints.

Part Two

Propositions and Proposals

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Congress' Impact on Latin America: Is There a Madness in the Method?

Robert A. Pastor*
December 1974

"Our common impulse in meeting here is to fulfill the promise of America as the continent which beckoned men to fulfill what was best in them . . . One concern has dominated all others as I have met privately with some of my colleagues in this room. Does the United States really care? Is this another exercise of high-sounding declarations followed by long periods of neglect?

These questions—not unrelated to historical experience—define our task . . .

Let us not be satisfied with proclamations but chart a program of work worthy of the challenge before us.

Let us create a new spirit in our relations—the spirit of Tlatelolco."

Secretary of State Henry Kissinger
Mexico City—Feb. 21, 1974

*This paper is a shortened and revised version of a paper originally prepared for the Commission in December, 1974. This study is based on published, unpublished, and classified (government) sources, but mostly on interviews with over fifty people from the Congress, the State Department, National Security Council, Treasury Department, the Library of Congress, and Latin American Embassies. Due to the classified nature of some of the material and to the confidentiality of the interviews, I have been unable at times to cite my sources. For this study, I am grateful to the facilities, financial support, and assistance generously provided by the Commission on the Organization of the Government for the Conduct of Foreign Policy and for the facilities and feedback furnished by the Center for International Affairs, Harvard University. Though I will accept all the responsibility for the paper's limitations, if any credit is forthcoming, I must share at least some of it with Dr. Abraham F. Lowenthal, who provided me with the questions and a few landmarks and sent me out to map the bureaucratic and legislative landscape. One last acknowledgement before getting onto the footnotes. I would like to thank the following people for helpful comments on earlier drafts: William I. Bacchus, Richard Bloomfield, Colin Bradford, I. M. Destler, Thomas A. Dine, Michael Finley, Stephen D. Krasner, Jean Lewis, Abraham Lowenthal, Philip N. Marcus, Lois McHugh, Arnold Nachmanoff, William Richardson, Peter Szanton, Larry Tell, Gregory Treverton, and Harry Weiner.

"It would be well to remember that this is not the first attempt to breathe new life onto the Organization of the American States. For a long time to come, it may be the last, if the momentum which was generated at the Conference of Tlatelolco is not maintained in the months ahead."

Senator Mike Mansfield
Report on the Conference (p. 5)

Question from a Venezuelan Journalist to Secretary of State William P. Rogers on May 15, 1973 upon his departure from Caracas:

"Heretofore, the more important diplomatic tasks have been assigned to Henry Kissinger to carry out; but now that the President has decided on a mission to the western hemisphere, he has appointed you. Is this because he attributes less importance to the western hemisphere? Now I ask you, is Latin America important to the United States? And, if so, why was Kissinger not designated for this mission?"

The fashion in recent foreign policy analysis is to concentrate on the politics within and between Executive bureaus. The assumption is that foreign policy is made by the Executive Branch; the implication is that a bureaucratic re-arrangement would produce a different foreign policy. Scholars occasionally point to a Congressional initiative—more often than not, a constraint on Executive maneuverability, such as the Hickenlooper amendment¹

¹Attached to the 1962 Foreign Assistance Act, the Hickenlooper Amendment, named after its sponsor, Senator Bourke Hickenlooper, required the President to suspend foreign aid to any country taking the property of, or repudiating or nullifying contracts with, any U.S. citizen unless "appropriate steps" were taken by that country within six months to assure "speedy compensation for such property in convertible foreign exchange, equivalent to the full value thereof, as required by international law." In the 1973 Foreign Assistance Act, the mandatory nature of the amendment was repealed. See Richard P. Lillich, "Requiem for Hickenlooper," in *American Journal of International Law*, Vol. 69, No. 1 (January, 1975), pp. 97-100.

—as an example of Congressional involvement in foreign policy making. The assumption, however, that Congress exerts little influence on American foreign policy remains widely and firmly held.² This paper will examine the validity of that assumption with respect to Latin America. Does the existence of Congress make a discernable difference in America's policy towards Latin America?

The question is phrased in such a way as to invite analysts to focus on outcomes, and to catalogue those instances where Congress has impeded, stampeded, halted, or altered the Administration's intended policy. A preoccupation with outcomes led James L. Robinson to conclude that Congress's principal role in foreign policymaking is to amend and legitimate actions and legislation originating in the Executive Branch.³ He, of course, acknowledged examples of Congressional initiative in foreign policy, but insisted they were exceptions. Others have submitted these exceptions to more intense scrutiny and found they too had originated in the Executive.⁴

Assigning initiative is a knotty and perhaps meaningless task. Although it is important to know where the action is first defined, the more pertinent question is: who is pushing whom for what purpose and to what effect? To answer that, one cannot view either Congress or the Executive as a unitary, passive register of each other's initiatives. Both Branches are *actors*; indeed both contain many actors with varying interests and perspectives.

Distinct coalitions form around different issues. Definite patterns of behavior are detectable both within Branches and between them on issues, but more importantly on the ways in which the issues are transformed into policy. What this study will try to do is examine *how outcomes differ because of Congressional involvement*; but also, and I think more importantly, *the process by which Congress exercises influence*.

First, the dependent variable—"foreign policy"—needs to be defined. The traditionalists' preoccupation with outcomes has largely coincided with the standard meaning of "foreign policy", narrowly defined as the statement of goals or intentions by

the Government—i.e., the Administration—towards a foreign country. To Latin Americans, however, the expiration of the U.S. Sugar Act, for example, is a foreign policy statement as profound as Secretary Kissinger's pledge at Tlatelolco to support Latin America's trade aspirations.⁵ Congress, like any institution with transnational capabilities, not only influences foreign policy, it makes it. Therefore, a broader definition of "foreign policy" is necessary to encompass the decisions and statements of subgovernmental and Congressional actors *which have an impact abroad*. It is also useful to distinguish between foreign policy *goals*—like Kissinger's pledge—and foreign policy *outcomes*—such as the emasculation of the generalized system of tariff preferences in the Senate Finance Committee—and to seek to explain the *process* by which foreign policy goals are translated or are not translated, as the case may be, into the outcomes.

In order to understand the Congressional impact on Latin America, it is necessary first to define the dimensions and the dynamics of Congress's interest in the region. There is a tendency among those who specialize in a region to see it as something larger and more important than what it actually is. It is necessary, therefore, to put our subject in an appropriate context. What is the nature of Congressional interest in the region? Is Congress more interested in the region than in other developing regions? What are the policy implications of Congress's attention-pattern?

(1) Special Relationship: Attention by Bursts

The underlying attitude which conditions Congressional policymaking towards Latin America is sometimes called the "special relationship"; operationally *this means that we are prepared to give more to Latin America but we also expect more* (for the privilege of an Alliance for Progress, there is the threat of a Hickenlooper amendment).

Congressional interest and attention, however, is not what one would expect from a "special relationship." Using a number of indicators, one finds that Congressional attention to Latin America is higher than for Africa, but lower than for Europe or Southeast Asia.⁶ Crises, of course, generate special bursts of attention, but this is not sustained.

⁵A follow-up Communique to the Conference stated:

"The Secretary of State recognized the importance of the United States market for the economies of Latin America. In the new spirit growing out of the Conference at Tlatelolco, he expressed his support of Latin American aspirations in the trade field." (Text of Communique of Foreign Ministers Meeting in Washington, D.C. on April 17-18, 1974, in Department of State, *The Inter-American Relationship*, 1974, p. 26.)

⁶Senate Foreign Relations Committee, 93rd Congress, *Calendar of Activities*. For the years 1969-74, a complete and systematic

²See, for example, Roger Hilsman, *The Politics of Policy Making in Defense and Foreign Affairs* (N.Y.: Harper and Row, 1971), pp. 76-83. Also James L. Robinson, *Congress and Foreign Policy-Making: A Study in Legislative Influence and Initiative* (Homewood, Ill.: Dorsey Press, Inc., 1962). Barbara Hinckley in Chapter 7 ("Congress and Foreign Policy" of her book *Stability and Change in Congress* (N.Y.: Harper and Row, 1971) concludes that Congress has grown increasingly involved in foreign affairs since World War II, but influence remains marginal.

³James L. Robinson, *op. cit.*

⁴See David A. Baldwin, "Congressional Initiative in Foreign Policy," *Journal of Politics* 28 (November, 1966). Also see Allan Furman, "Foreign Aid: New Directions or the End of an Era," unpublished paper for the Center for International Affairs, Harvard University, May, 1974.

Furthermore, involvement in issues of relevance to Latin America is dispersed among many Committees and members. In the 93rd Congress, for example, nearly 40% of all Hearings and Committee Reports concerned with Latin America originated in nonforeign affairs Committees.⁷

There is only one Legislator, Rep. Dante Fascell (D-Fla.) former Chairman of the House Subcommittee on Inter-American Affairs, who could be said to follow events and decisions of potential consequence to the region in a way comparable to a "regional lobby," like the Jewish lobby's attention to Israel.⁸ With the exception of Fascell, Rep. Charles Whalen, Jr., Senator Lawton Chiles, and Senator Gale McGee—whose interest principally stems from his role as the Chairman of the Senate's Western Hemisphere Affairs Subcommittee of the Foreign Relations Committee—Congressional interest in Latin America, though widespread, is more functionally than regionally oriented. To the extent that issues like "human rights" (Harrington, Fraser, Kennedy, Abourezk) or "foreign assistance" (Humphrey) or "multinational corporations" (Church)

study of the relative attention to Latin American issues by Congress was made possible with the help of the computerized database created and maintained by the Library Services Division, Congressional Research Service, Library of Congress. The statistics listed below represent all Hearings, formal reports, Committee prints, and documents published by the Congress during the period:

	1969	1970	1971	1972	1973	1974
Latin America	15	29	27	31	30	25
Africa	5	8	7	14	14	11
Asia	13	51	57	71	63	62
All Regions (including E. and Western Europe, Canada, Middle East)	49	126	143	195	196	161

This pattern is also evident in the statistics on official business trips abroad by legislators. (See Chart 1) Caveats are obviously necessary, but I think the statistics above do indicate a relatively steady and relatively low level of attention to Latin American issues in this period. Pursuing the analysis backwards, I had to be a little less systematic, but I was helped by Committee *Calendars*, the *Congressional Quarterly Almanac*, and the following multith: Ernest S. Lent, "Foreign Policy Resolutions by the Congress since 1950," Library of Congress, May 25, 1966.

⁷Computer print-out on all "Congressional Documents on Latin America by Committee," January 1, 1970–July 18, 1974, Library Services Division, Congressional Research Service, Library of Congress.

⁸At the start of the 94th Congress, the House Foreign Affairs Committee changed its name to the International Relations Committee and dramatically restructured its subcommittee system from regional to functional subcommittees. Fascell now chairs the Subcommittee on International Political and Military Affairs, and although he maintains an active interest in Latin American Affairs, he will necessarily have less time to devote to it.

intersect with Latin America, these Legislators evince interest in the region.⁹

Nor is the "special relationship" evident in the sources of Legislative interest. There is no evidence for a qualitative difference in the sources of interest inter-regionally, i.e., constituents as individuals and groups, have the same kinds of routine requests, problems, and grievances with regard to Latin America as they do for Africa and Asia.¹⁰ Legislative aides discern a slight quantitative difference but this is understandable given the larger American presence in Latin America. With Latin America accounting for the highest proportion of U.S. foreign investment in the developing world,¹¹ one would predict corporate pressure on Congress on behalf of American multinational corporations in Latin America to be immeasurably greater, both in number and intensity. No one denies there is more corporate contact on Latin American issues, but virtually all of those interviewed surprisingly agree that the difference is marginal, not dramatic. Explanations for why this is the case will be offered later in this paper.

In assessing the political importance of outside groups, it is useful to distinguish between the Legislator's *micro-agenda*, those routine items which Legislators, as public servants, are required to respond, and the Congress's *macro-agenda*, those items which ascend to the level of hearings and bills. Special interests can and do determine the Legislator's micro-agenda, but are usually dealt with by routine procedures. For an item to be accepted by Congress as a macro-issue, it must have the capacity to be *generalizable*.¹²

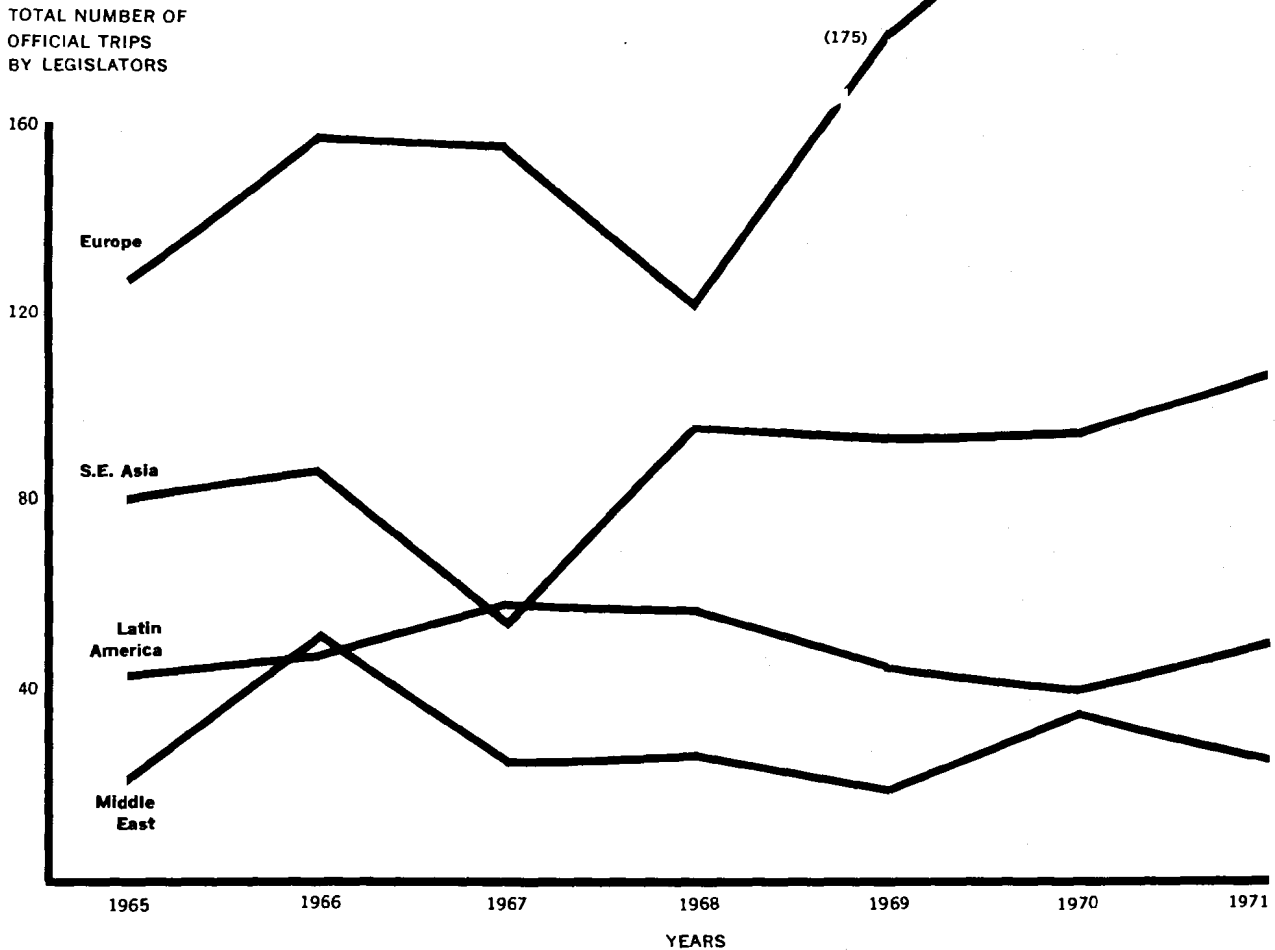
⁹Senator Frank Church (D-Idaho), the Chairman of the Subcommittee on Western Hemisphere Affairs from 1969 to 1973 has never really focused on Latin American issues *per se*. His general interests have paralleled those which concern the full Committee. His specific interests have been military assistance and sales and Multinational Corporations, the Subcommittee on which he now Chairs. (Interview with Thomas A. Dine, Assistant for Foreign Affairs to Senator Church). The current Chairman of the Subcommittee on Western Hemisphere Affairs, Gale McGee (D-Wyo) has a greater personal interest in International Organizations (the UN in particular) and to a lesser degree African Affairs than in Latin America.

¹⁰The conclusions in this section were based principally on interviews with two Legislators and many Congressional Aides and State Department officials. Were the responses to my questions equivocal or highly diverse, I would have hesitated to draw these conclusions.

¹¹As a percent of total U.S. foreign investment in 1972, U.S. foreign investment in Latin America is 23%; in Asia, 7%; in Africa, 3%.

¹²There are, of course, exceptions to this rule, i.e., when individual Legislators press for a particular interest, but even in those cases of relevance to Latin America, "hobby horses" are more numerous and typical than "pork barrels." The Foreign Aid bill contains a number of these examples. Rep. Otto Passman and Senator McGee have a special interest in the American Schools and Hospitals Program; Rep. Fascell in the Inter-American Foundation; Senator Mansfield in student exchange programs.

CHART I.—CONGRESSIONAL TRAVEL ON OFFICIAL BUSINESS, 1965–1971



Sources: *Congressional Quarterly Almanacs*, 1966–1972.

Now that it has been established that Latin America is not very important to Congress, we want to examine whether Congress is very important to Latin America.

(2) A Taxonomy of Issues: Policy-Vehicles

In order to more fully understand the implications of this attention-pattern, it is necessary to turn to the current issues on the Inter-American agenda. The immediate problem is how to classify these

issues when they defy traditional categories like "economic" or "military-security." An increasing awareness of economics as "high policy" has encouraged many scholars to look at traditional security issues for economic dimensions.¹³ This has then encouraged others to look for a security dimension in traditional economic issues.¹⁴

Classifying issues according to traditional issue-

¹³Charles L. Schultze, "The Economic Content of National Security Policy," *Foreign Affairs*, April, 1973.

¹⁴Priscilla Clapp, "The Security Dimension of Foreign Aid," in *The U.S. and the Developing World: Agenda for Action*, edited by Robert H. Hunter (Washington, D.C.: Overseas Development Council, 1973).

areas is not only unavoidably sloppy, it is probably futile as well. Our purpose, after all, is to come to a better understanding of how process affects outcome. To obtain this, we need to examine the methods by which these issues are transformed into policy. The methods and the current issues, which pass through them, are listed below:

1. Foreign Policy by Amendment
 - a. Investment disputes (Gonzalez, Hickenlooper Amendments)
 - b. Fishing disputes (Pelly Amendment)
 - c. Military Sales (Conte-Long Amendment)
 - d. Human Rights (Kennedy Amendment)
2. Foreign Policy by Domestic Legislation
 - a. Trade Act: Generalized system of preferences; countervailing duties
 - b. Commodities (coffee, sugar, tin)
 - c. Taxes: Western Hemisphere Trade Corporation
 - d. Disaster Relief
 - e. Immigration
 - f. Agricultural marketing orders (fruits and vegetables)
 - g. Import/Export Quotas
3. Treaty and Recognition Policy
 - a. Canal Zone Treaty
 - b. Cuban Isolation
 - c. Colorado River Salinity; Chamizal

That all the major issues defining current inter-American relations fit snugly within this taxonomy, while the parameters are *Congressional* instruments, indicates that Congress has addressed the major issues. These policy vehicles are obviously not unique to Congressional-Latin American relations; nor does it appear that the vehicles are used any differently in making policy towards other regions (e.g., the Eagleton amendment prohibiting military assistance to Turkey in the 1974 Foreign Assistance Act) though such a conclusion would have to await a more detailed and systematic study.

(3) Foreign Policy by Amendment: Foreign Assistance

Each year, the Foreign Assistance Act is reviewed and reworked by four separate Congressional Committees. By the time the Act emerges from Conference, it is much more than just a foreign aid program. To the Executive Branch, it has become "a Christmas tree of restrictions."¹⁵ From a different perspective, however, it can be considered the principal vehicle by which Congress makes and proclaims its foreign policy.

¹⁵Allan Furman, op. cit., p. 24. For a tour through "the legislative maze," see pp. 38-48.

Amendments find the Congress and State Department exchanging their traditional roles. Congress drafts and initiates; while State delays and amends. These amendments are most frequently attached to the Foreign Assistance Act or the Foreign Military Sales Act, but they can also be found on any legislation which in any way functions to transfer resources from the U.S. to Third World countries. By reducing, redirecting, or eliminating the "giveaway," Congress expresses its sense of the world and seeks to keep the State Department responsive to its concerns.

Amendments, especially those attached to foreign aid bills, function as levers at three levels of the international and domestic political systems: (1) as a lever by which America can insist that LDC's recognize obligations—whether they be postal debts or compensation for nationalization of a U.S. company;¹⁶ (2) as a lever by which Congress can insist that the Executive Branch remain responsive to the Legislative will; and (3) as a lever by which private interests can use the Congress to pressure Third World countries. It appears that the perception of leverage increases as one moves from State to Congress to the private sector. In the dispute with Ecuador and Peru over seizure of American tuna boats, the tuna industry believed the U.S. Government had all the resources necessary to effect a desirable outcome; State believed there was little that could realistically be done; and Congress took the middle position. Rep. Pelly testified in an effort to tie the sugar quota to the dispute: "It seems to me if our own State Department refuses to institute action under an effective treaty, then the Congress must take the only kind of action at its disposal to end this tuna war."¹⁷

The tie that binds the most conservative and the most liberal Legislators in their approach to the foreign assistance program to Latin America is their desire to cut rather than add. Conservatives insist that aid be cut to leftist regimes who importune American business or discharge anti-American rhetoric. Liberals demand cutbacks in military and often in economic assistance to right-wing regimes who stifle dissent and persecute political opponents. What is more surprising about the pattern is the fact that liberals and conservatives hardly ever square off. Generally, liberals will acquiesce in con-

¹⁶One U.S. Embassy official told me that each year the Embassy would inform the Latin American government that the foreign assistance or PL 480 checks had arrived with instructions from Washington saying that they could be collected *only after* outstanding postal debts, obligations on military purchases, or investment disputes were settled. Such pressure was effective in "lubricating" host government bureaucracies, but was generally ineffective if the particular issue was "politicized," i.e., had already been decided at a higher level.

¹⁷U.S. Congress, House Committee on Agriculture, *Hearings: Extension of the Sugar Act, 1971, 92nd Cong., 1st Sess.*, p. 221.

servative pleas for cutbacks (witness during the Allende regime); and conservatives will acquiesce when liberals get upset (witness during the military junta in Chile now). (This is what distinguishes the foreign aid program from domestic programs which always have a grieved constituency to block economizers.)

Though its useful to visualize each Branch playing a different role in handling legislation—the Executive initiating, the Congress funding and amending—it's perhaps more useful to see both branches playing roles which parallel one another.

The process by which the Executive arrives at appropriations decisions for foreign aid is similar to Congress's approach. Both add to or tear at the margins.¹⁸ More importantly, the debates on policy that rage in Congress *publicly*, often, to a remarkable extent, parallel those in the Executive. What is surprising is the relatively few times a defeated bureau will ally with a Congressional Committee in an attempt to resurrect a proposal.¹⁹ However, examples of this do occur.

The Foreign Assistance Act of 1973, which many believe represented a dramatic shift in our development efforts from bilateral programming to functional programming, was the outgrowth of a report written by Dr. John Hannah, then Administrator of AID.²⁰ All Executive legislative proposals must be screened at OMB, but in anticipation that OMB might reject the proposals, the Staff of the Legislative Programs Section of AID worked on the proposals with the Overseas Development Council (ODC) a non-governmental research organization, and some of the Staff of the House Foreign Affairs Committee. By the time OMB had rejected it, the proposals were written and accepted by the HFAC.

¹⁸For an analysis of appropriations decisions in the Executive Branch, see Aaron Wildavsky, *The Politics of the Budgetary Process* (Boston: Little Brown, 1969); for the Legislative Branch, see Richard F. Fenno, Jr., *Congressmen in Committees* (Boston: Little Brown, 1973) and also Richard Fenno, *The Power of the Purse: Appropriations Politics in Congress* (Boston: Little Brown, 1966).

¹⁹In spite of the heated debates in State particularly between the Economic and Business Affairs Bureau and the Regional Bureaus, State manages to cast a shell around it and present a united front to the outside world. Such was the case, for example, in the debate on the renewal of the Sugar Program. See Pastor, "US Sugar Politics and Latin America," in this volume.

²⁰There are some in Congress who think that the Foreign Assistance Act of 1973 represented a "cosmetic" change, an alteration of the labels only. Instead of defining the distribution of assistance by countries, the new law defined it by functions: (1) food and nutrition; (2) population planning and health; and (3) education and human resources. For a discussion of the new Act, see two papers written by Allan S. Nanes, Specialist in International Development of the Foreign Affairs Division of the Library of Congress, "The Re-organization of U.S. Development Aid: Comparison and Summary Analysis of Some Official and Unofficial Proposals (prepared for the House Foreign Affairs Committee)" and "Alternatives to Bilateral Economic Aid (prepared for the Senate Foreign Relations Committee)", May and June, 1973.

AID, at this point, disclaimed responsibility, and was vindicated by the Senate, whose report said: "This fundamental redirection [of U.S. Aid Program] was primarily a Congressional initiative which subsequently received the support of the Administration."²¹ A more accurate description would be that it was AID's initiative, Congressional endorsement and re-drafting with the help of ODC, and OMB acceptance of a fait accompli.

Quite different from the interaction involved in the development of the Foreign Aid bill in 1973 is the amendment making-and-breaking process, which generally adheres to the following pattern:

1. Upset over Executive Branch foreign policy, a Legislator introduces an amendment which seeks to alter the policy.

2. State instinctively reacts by trying to get it *deleted or diluted*.

3. Through Hearings, Congress tries to elicit a substantive discussion of the issue, e.g. on human rights and what the U.S. Government can do to address the problem.

4. Publicly, State refuses to join the debate, instead insisting that the principle of nonintervention in international relations precludes the kind of policy which the legislator desires.

The outcome has significance beyond the particular case. In cases of Congressional determination, State will sometimes bend, though it won't always convey the message to Congress. In those cases, Congressional frustration is compounded.

An excellent example was Senator Church's Hearings on the role, if any, of US assistance in the torture and repression in Brazil in 1971. Church insisted that State re-examine the AID program. State repeated that no matter how distasteful torture may be, it was the policy of the American government not to impose American standards abroad. Privately, State sent messages to Brazil and re-examined the AID program. A decision was later made to phase down the program. Though one official said that the political (torture) argument was persuasive, State publicly told Congress the following year that the economic rationale—that Brazil was no longer a developing country—was determining. The official also admitted that "we would have continued our aid program if we weren't pressed by Congress to re-evaluate it." Senator Church publicly expressed frustration and privately fumed over State's obtuseness.²²

In short, State sometimes finds Legislators' demands easier done than said.²³ To find the causes

²¹US Senate Foreign Relations Committee, *Foreign Assistance Act: Report on S.2335*, August 2, 1973, p. 4.

²²Interview with Thomas A. Dine, Assistant for Foreign Affairs to Senator Frank Church.

²³State Department spokesman Robert McCloskey made the following statement in reference to the Cyprus situation.

"There can always be legitimate criticism that we didn't say

of this silent responsiveness, let us examine in greater detail the interaction between State and Congress. The Congressional Relations Office (also referred to as "Liaison" or "H") in State is the communications link between State and Congress, and it functions in a sense as the middleman between abstract policy and political feasibility.²⁴ Like A.I.D., whose bill must weave through the "legislative maze" each year, Liaison Officers, who must work with Congress on a routine basis, are more sensitive and responsive to Congressional whims than the rest of State. (Thus, ARA Liaison, representing an integrated bureau, is likely to be more responsive than a Liaison Officer representing another regional bureau.)

"I don't want anyone getting any horrible surprises," said one Staff from "H." Their job is to push Congress as far as possible; then push State over to that spot. An example is Dante Fascell's successful attempt to create the Inter-American Social Development Institute, now the Inter-American Foundation. AID initially fought it, fearing that it presaged a phasing-out of their own organization. Liaison Staff who work continuously with Fascell and know him as one of the Foreign Assistance Act's staunchest supporters in Congress, persuaded the AID Administrator that Fascell's proposal would probably win in Congress and thus it was better to work with Fascell in shaping legislation then oppose it and risk alienating him.²⁵

The alliance between Fascell and Liaison serves the essential function of keeping the channels of communication between State and Congress open and influence flowing in both directions. The dynamics of the process were evident in the 93rd Congress in Fascell's effort to stake out a middle position between the Harrington-Fraser amendment to cut off all military assistance to Chile and State's request to double it.

Fascell, like McGee and Humphrey in the Senate, functions as an "insider" in the Congressional foreign policy process. All are generally supportive of

enough publicly about what we were doing privately, but that's a choice we made in the belief that it was not necessary for the United States to be making public pronouncements if it was doing what it felt was right privately. . . ." (cited in *Washington Post*, August 15, 1974, p. A 22).

²⁴As an example of the mediating job of Liaison, consider Senator Church's Hearings on Torture in Brazil. The SFRC wanted open session. Liaison wanted closed session. And ARA didn't want them held at all. The outcome was that the Hearings were held in Executive Session. The same pattern followed the Hearings on what would be deleted. Again, Liaison's compromise was the outcome. (See US, Senate, Foreign Relations Committee, *US Policies and Programs in Brazil*, Hearings, 92nd Cong., 1st Sess., May, 1971.)

²⁵Similarly, Fascell's later initiative in obtaining continuous funding for the Inter-American Foundation through tapping Social Progress Trust Fund re-flows won reluctant AID approval after Liaison convinced the Administrator that Fascell was unstoppable, and AID might as well get behind him.

Administration foreign policy, though not unquestioning in their support. They listen to their more impassioned colleagues like Church, Kennedy, Harrington, and Fraser, and quietly try to sell a compromised version to the Administration.

Because State relies so much on their support, which is indispensable in managing the foreign aid bill, the "insiders" have manipulatable tools not available to the "outsiders." One example is AID's acceptance of Fascell's "pet project," the Inter-American Foundation. Another example occurred in March, 1974 when one of Senator Humphrey's Staff found that AID, acting under NSC Directive, was trying to re-channel \$60 million to Indo-China which had been authorized for Latin America. Humphrey and McGee had a meeting with AID Administrator Dan Parker and warned that if this money were used in Indo-China, the AID bill would lose their support. Parker went to the NSC and to the highest levels in State and obtained promises that the money wouldn't be used in Indo-China. Humphrey and McGee re-wrote his promise into the Supplemental Appropriations Bill.

Both "outsiders" and "insiders" play important and at times complementary roles in making foreign policy. The "outsiders" are often the source of ground-breaking questions and initiatives. They are "radicals" in a stylistic if not a substantive sense, demanding that our foreign policy adhere to unchallengeable and *uncompromisable principles*.

Whereas the outsiders publicly jab at foreign policy, the insiders privately shape it. The insiders are pragmatists, gradualists, who accept the assumptions of Administration policy, but who try to temper it to the concerns of their fellow Legislators.²⁶ Theirs is the more perilous role: to keep from losing the respect of their colleagues while avoiding co-optation by the Administration.

The dynamics by which Congress prods and State responds has been explained, but the "silence" aspect still confuses. The key lies in the self- and cross-perceptions of the two Branches, and the problem is fundamental: Congress and State begin with different interests and perspectives and play to different audiences in different forums.

In the Brazilian hearings, State could not deliver publicly what it could do privately. Besides the fact that Brazil was listening, the State Department was operating in accordance with primal fears and institutional principles: (1) a fear of the narrowing of jurisdictional prerogative—activated whenever Congress enters the foreign policy arena; (2) fear of limiting negotiating flexibility—any *mandatory*

²⁶Senator Chiles represents an interesting case of a legislator who may become—if he isn't already—an insider because of his "pragmatism." When Liaison contacted him in 1974 about "unfreezing" loans to Chile and Peru—an item he was on record in 1973 as opposing—he changed his mind on Peru, but stood firm about giving new loans to the Chilean junta.

amendments; and (3) inveterate bureaucratic and diplomatic fear of *disclosure, oversight, or publicity*. Though State is doubtlessly concerned with the substance of the issue, these three organizational imperatives to a great extent determine the nature of State's response to Congressional initiatives.

Congressional control over appropriations and authorization are meager power resources compared to disclosure and amendments. As consumer and public interest groups have learned, disclosure is the great equalizer between actors with unequal power in the democratic political game. State especially dislikes publicity because officials believe it will "tie their hands" or "narrow their options." It is the fear of crippling amendments—even more than the reality—which causes State to lean harder on a Latin American country than they would prefer.

Without Congress, the State Department would try to keep the Ship of State on an even-keel—not avoiding waves, but rather trying to roll with them. Good relations between two countries rely on an appreciation and a tolerance for domestic events. This means localizing not politicizing individual disturbances. This means also that when pushed by Congress to alter policy, the alteration is incremental and clandestine.

This leaves the Legislators who push, i.e., "the outsiders," with a residue of frustration, and a lingering feeling that both they and State are impotent. To begin with, as one Congressional Aide put it, "Congress has a greater capacity for indignation." They are playing to local (and the ambitious, to national) constituencies in an open, democratic debating forum where persuasion—both political and rational—determines. When American citizens or corporations are shackled or harmed in Latin America, the dormant view of the "special relationship" is activated: the feeling that since we are doing more for Latin America, they should treat us properly; the feeling that State in the interest of the Stable Ship is willing to sacrifice the single constituent or corporation; the feeling that State has all the leverage Congress appropriates annually and yet is reluctant to use it; indeed that State is deliberately trying to frustrate Congress—a constellation of feelings are set in motion by a single event and provide the manifestations that make the "special relationship" special. If the Congressman especially cares about the person, the issue, the principle, he may go to great lengths to secure a favorable outcome.

State is all too aware of this, as are corporations. That is why corporations—who run into more problems in Latin America than in any other region (because of volume of foreign investment; nationalism; paternalism) go directly to State to secure an outcome. One Country Director told me: "If I don't

spend five minutes with a businessman than I may have to spend three hours with his Congressman." The impression which he meant to convey was that "Congressmen are so difficult to handle" that he will do what he can to avoid it.

Because both the businessman and the Country Director know the former can turn to his Congressman if he is not satisfied with State's performance, the bargaining between the two is weighted towards business, this in spite of the probability that the Congressman is not likely to press the case as hard as State. The apparent discrepancy between the image of a Foreign Service Officer personally neutral or antipathetic to business and a policy which seems to be biased towards business is at least partially explained by inveterate cautiousness and fear of publicity and crippling amendments.

In cases like IPC-Peru, or the Chilean or Ecuadorian expropriations, Congress's role was that of an invisible presence. Congress and Congressmen did not push State in those cases, nor was State being dictated to by business, although from the outside it may have appeared like that.²⁷ Rather State leaned so hard on the Latin American country *out of fear of being pushed by Congress*, that she might as well have been pushed. Though outcome caused by Congressional shoving may be few, *the fear of such outcomes skews the process*. Faced with two objectives—maintenance of Executive jurisdiction over foreign policy and balancing the "many parts" of our national interest—State grabbed the organizational procedure with both hands leaving nothing to balance our foreign policy interests.

Looking at it from a different perspective, these expropriation cases and the human rights issue may represent the two different sides of the same amendment-making process. In the human rights issue, State risked the entire foreign aid program in Congress rather than jeopardize "all the parts" of our relations with the Chilean junta by placing all the US government weight on a single "part": human rights. In the expropriations cases, State followed the "spirit" of Congressional concern and retained the foreign aid program, but permitted our bilateral relationship with Peru to be unbalanced and jeopardized.²⁸

Thus, the threat of amendments has a spill-over impact which extends beyond the individual out-

²⁷See Gregory Treverton, "U.S. Foreign Policy-Making in the IPC Case," in this volume.

²⁸If we look at the human rights issue and the foreign investment issue as equal in the sense that the *disregard* for either would jeopardize the foreign aid program, and the *total regard* for either will jeopardize our bilateral relations, then one must ask two questions: (1) How did we get into this suicidal trade-off? and (2) Why, if both items are equally weighted (not in terms of constituency but in terms of the price of the alternative), did we choose to jeopardize our bilateral relations with a democratic Peru in 1963 but not with a military Chile in 1974?

come (i.e., beyond the limitation of military sales, beyond the Hickenlooper) to the process. The Hickenlooper Amendment was only invoked once, but its "spirit" continues to reverberate through the halls of Foggy Bottom, and however much one finds that amendment unjustifiable, one needs to recognize that the threat of amendments serves the important function of keeping the system honest and responsive. When the Executive is not responsive to Congress, the system can be said to have broken-down, and an aid cut-off (e.g., on the Turkey issue) is a reminder to the Executive that the Congress is to be taken seriously. The amendment may be an inept and counterproductive tool of diplomacy, but so too is war.

(4) Foreign Policy by Domestic Legislation: Trade and Taxes

Unlike amendments which Congress uses as loud and explicit foreign policy statements, "domestic economic legislation" is not viewed as foreign policy at all, in spite of the fact it often has as much of an impact abroad as a cutoff of development assistance. In terms of importance to Latin Americans, the "bread and butter" issues are tariffs (generalized system of preferences (GSP) and countervailing duties); taxes (Western Hemisphere Trade Corporation; tax deferral for MNC's abroad); export and import quotas; voluntary agreements on textiles; marketing orders for agricultural products; and commodity legislation (sugar, coffee, tin).

The U.S. is the destination for over one-third of all Latin American exports, and thus U.S. decisions either to impose barriers to Latin American goods or to guarantee access at improved terms have a direct impact on their domestic economies. A guaranteed price for coffee would have obvious ramifications for 14 coffee-producing countries in Latin America when it is estimated that a one cent decline in price means a loss of \$55 million in foreign exchange for the region.²⁹

In a sense, these domestic economic issues are symptomatic of the asymmetric relationship between the U.S. and Latin America. Short of a revolutionary change—whether that be a coup, a nationalization, or a land reform law—there are few, if any, domestic issues in Latin America which would have much of an impact on the U.S. (True, it could greatly effect an *individual* citizen or corporation and through leverage and the dynamics described above, it might be transformed into a politicized issue requiring bilateral governmental negotiation.

²⁹Nelson A. Rockefeller, *Report of a U.S. Presidential Mission for the Western Hemisphere: Quality of Life in the Americas* (N.Y.: August 30, 1969) p. 70.

But the issue itself does not have a direct impact; it is only through the process that it is made to have an impact.) On the other hand, much of what the American Congress routinely handles has wide-ranging implications and impact for Latin America.

For example, in the original Tax Bill (H.R. 1040), the House Ways and Means Committee included a section which would not permit any tax deductions on American convention meetings held outside the U.S. From the perspective of American hotel owners, it was a "sensible proposal," but nonetheless, if accepted, it would inadvertently have had a significant effect on the tourist industries and the entire economies of the Bahamas and the Caribbean countries. It was only due to the lobbying of multinational corporations with hotels in the region that this provision was dropped.

It might be useful to catalogue the special characteristics of these trade and tax issues, which are addressed and decided in arenas which are a good distance from those which traditionally handle foreign policy:

(1) *Legislative-Executive.* The powers of definition and decision are shared by both Branches, though the Executive generally has comparatively greater power over definition while the Legislature has greater power over decision. Such was the case with the Trade Reform Act, but in the renewal of the Sugar Act in 1974, the Administration conceded all its drafting powers to the House Agriculture Committee.

Whereas in amendments, we find Congress working on the margins of Executive foreign policy; in the second vehicle—domestic economic legislation—we find the Executive Branch pressing on the margins of Congress.

(2) *Domestic Committees.* These issues are handled by Congressmen and Committees whose entire orientation is domestic. "In trade and tax areas," said a Senior Staff on the House Ways and Means Committee, "the system doesn't permit Congress to be very aware of problems in Latin America." What he meant was that these are "bread and butter" issues in the U.S. as well, and Legislators know which side their bread is buttered on, i.e., Latin Americans don't vote in the United States.

It was this domestic orientation rather than a foreign policy purpose which led the Ways and Means Committee to tighten the GSP section of the Trade Act, a section which has a direct and important impact on Latin America and a marginal impact on the United States. (Indeed, if one approaches the issue from the consumer side of the American economy rather than the producer-side, a liberal GSP would be even more in the national interest since it would have a dampening effect on prices.) The Committee system is constructed in such a way that the trade-off questions are seldom asked. The

Ways and Means Committee largely ignored the international implications of GSP, while Fascell's Committee focused on it to the exclusion of the domestic impact.³⁰

(3) *Amendment Component.* To the extent that the international dimension is recognized and viewed by Congress as a "give-away," the issue is then subject to the amendment-making process. For example, the Sugar Act and the GSP have both attracted neo-Hickenlooper variations.

(4) *Actors.* Unlike the amendments to international program legislation, these domestic issues are characterized by the involvement of many governmental and nongovernmental actors in many secondary issues. The most relevant implication is that Latin America and the State Department have comparatively less influence than they have in foreign policy issues, and that coherence and consistency are often casualties in a complicated logrolling process.

The *threat* of introducing or shaping such legislation in a particular way along with the power over appropriations provides Congress with additional resources with which it can influence the *implementation phase* by the Executive Branch. Two examples—countervailing duties and agricultural marketing orders—will give a flavor of Congressional influence on administrative actions.

Since 1896 the countervailing duty law has required that the Assistant Secretary of Treasury in charge of Enforcement investigate complaints of imports having an unfair competitive advantage due to subsidies provided by foreign governments. Since the law did not specify a time limit on these investigations and since imposing a countervailing duty would have created more damage to U.S. foreign policy than benefit to domestic industry, most of these cases have been delayed indefinitely. While the Trade Reform Bill was pending in Congress, the Treasury Department, fearful that Congress would make the countervailing duty provision mandatory and overly restrictive, felt compelled to dispatch outstanding cases as quickly as possible. Thus, in 1974, the same year that Kissinger promised U.S. support for Latin American trade aspirations, the Treasury Department launched serious investigations of export subsidies to the Colombian cut flower industry and the Argentine and Brazilian footwear industries.

An example of more direct Congressional pressure on a trade issue occurred in 1971 when Fascell sought to stem the imports of Mexican tomatoes. Fascell's district, Dade County in Florida, accounts

for a large percentage of U.S. winter fruits and vegetables, but it has been increasingly challenged by cheaper Mexican imports. On November 8, 1971, in letters to the Secretaries of State and Agriculture, Fascell requested that the State Department negotiate more effective voluntary agreements and that the Agriculture Department consider more restrictive marketing orders on tomatoes, cucumbers, and strawberries. Fascell, of course, recognized the international implications:

I do not mean to suggest in any way that we severely restrict the aggregate flow of Mexican products to our country. A balanced agricultural policy, however, requires that the threat toward almost total reliance on Mexico for U.S. winter fruits and vegetables be halted.³¹

Hearings on the same subject were held in his Inter-American Affairs Subcommittee in February, 1972. Although too late to be effective in 1971, the proposals were accepted and enforced for the 1972 winter vegetable season.³²

Thus, in implementation as well as in definition and decision, Congressional influence is considerable if not paramount in domestic economic legislation, which has a great effect on Latin American countries. These matters also happen to coincide with those in which State, often the medium if not the spokesman of foreign interests, has the least influence.

(5) *Treaty and Recognition Policy.* Other than amendments and economic legislation, the principal diplomatic tool available to Congress is provided by the Constitutional provision to "advise and consent" on treaties and nominations. This tool also has spill-over qualities onto recognition policy and independent diplomacy by Legislators. The three issues presently included under this rubric—the Canal Zone, Cuba, and the Salinity Treaty with Mexico—provide insights into how influence is in fact distributed between Congress and the Executive under Treaty and Recognition Policy.

Under this policy, Congress can put an item on the Executive agenda; push it up to the top for a decision or delay until it is revised; or push an item off the agenda.

The U.S.-Mexican dispute on the salinity of the Colorado River languished unresolved in the working levels of the two Foreign Ministries until Congress, stimulated by the Annual Meeting of the Mexico-U.S. Inter-Parliamentary Group, prompted President Nixon to devote high level attention to it.³³ As an excellent forum for exchanging information on domestic politics and re-examining bilateral

³⁰U.S. House of Representatives, Committee on Foreign Affairs, Subcommittee on Inter-American Affairs. *Trade Preferences: Latin America and The Caribbean: Hearings*, 93rd Congress, 1st session, June 25 and 26, 1973.

³¹Press Release from the Office of Congressman Dante B. Fascell, November 8, 1971.

³²*Los Angeles Times*, September 16, 1972.

³³See Report by Senator Mike Mansfield to the Senate Foreign Relations Committee on a Study Mission to Mexico, May, 1973.

problems, the annual meeting is envied by other Latin American countries.

Congressional speeches and trips abroad can help to create a climate in which existing policy can be modified. The number of Legislators calling for normalization of relations with Cuba reached the point in July, 1974 where, according to one State Department official, they "cast doubt on the credibility of our policy." Of course, the principal reason for the subsequent softening of US policy towards Cuba was the removal of President Nixon; but a change in policy is more likely to succeed because of previous deliberations in Congress. One should not minimize the importance of Congressional consensus on a major policy shift.

Congress often takes a Treaty and stamps its distinctive print on it. Following the agreement on the Colorado River, State requested \$155 million for the desalting project. Congress added \$125 million worth of salinity-control projects in Colorado, Utah, and Nevada and gave the entire project to the Interior Department.³⁴

State's difficulty in adjusting to the active role in foreign policymaking which Congress insists on playing is particularly evident in the important case of the proposed Panama Canal Zone Treaty. State Department officials have traditionally believed that treaties should be negotiated in private, and only after agreement has been reached and the treaty initialled, should it be deposited in the Senate for ratification. The rationale for this procedure—that "stirring up debate" in the Senate during negotiations narrows the diplomats' options—underlay State's failure to send a high-level delegation to the Hill at the beginning of the 94th Congress to head off Senator Thurmond's Resolution, which would "urge retention of undiluted United States sovereignty and jurisdiction over the U.S.-owned Canal Zone." Thurmond's Resolution, S. 97, was finally introduced on March 4, 1975 with 37 co-sponsors, enough to block a Treaty. State's "passive strategy" triumphed in the intra-bureaucratic debate over the objections of both Liaison Office and several pro-Treaty Senators who felt that an active role by the Department could have persuaded at least twelve of the co-sponsors not to sign the Resolution.

(6) *Summary and Conclusions: A Rhythm in the Relations*

It's clear that Congress *does* make a difference. In order to explain American policy-making towards Latin America, it is not sufficient to study the politics between Executive bureaus. Nor is America's foreign policy adequately explained by viewing Congress as an outsider, permeating and pressuring Executive foreign policy. Rather, this paper

suggests that a *systemic* approach is more useful: viewing foreign policy as the output of a sometimes forceful, more often subtle, interactive process between the Executive and Legislative Branches.

Using this approach, one needs to examine the behavior of Legislators, of Congressional Committees, of Executive bureaus, and of alliances between bureaus and Legislators. More importantly, one needs to understand the self- and cross-perceptions between Congress and State because the outcome is determined as often by perceptions as by pressure.

Legislators feel an emotional attachment to Latin America that is not manifested for other regions. This is due to geographical proximity and a sense of community. The U.S.A.'s "special relationship" with Latin America is very similar to that with Canada and England; the main difference being that the relationship with Latin America, a developing region, is inherently unequal. Thus, instead of eliciting a fraternal bond; it imposes a paternalistic one. The "parent's" attention is not ongoing; rather it oscillates between ignoring the "child," helping him, and punishing him for his transgressions. The burdensome paternal presence (high foreign direct investment; relatively high tourism) often elicits child-like rebelliousness which in turn elicits punishment. This is what is unique about the U.S. relationship with Latin America.

State is trapped in this oscillating process too—but State's standard operating principles mute the swings. On the other hand, the operational principles of Congress accentuate the swings. Diplomacy towards Latin America has been a compromise—a meeting in-between, sometimes half-way, sometimes a little less. The point on the arc where policy is made depends on the relative strengths (actual and perceived) of the two Branches and the character of the cross-cutting coalitions.

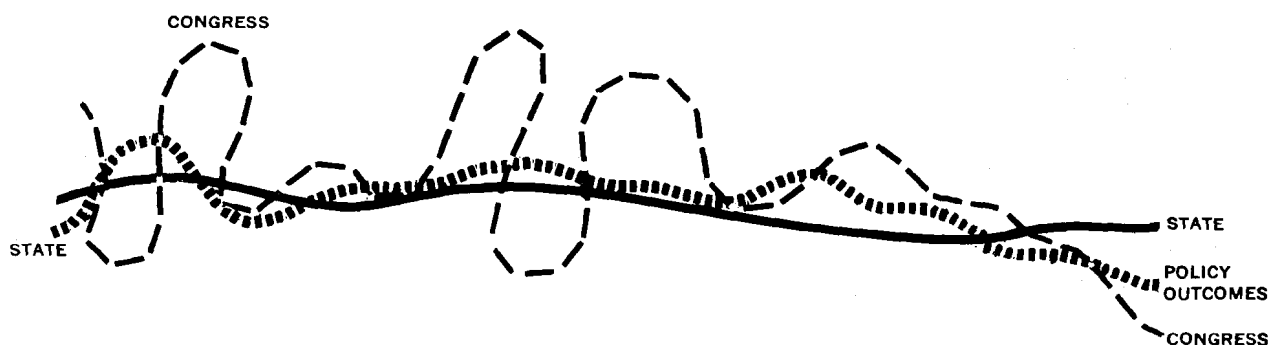
Perceptions are often the function of the previous swing, so that a Congressional extreme—like Hickenlooper in 1962—can condition future movements by State even though pressure from Congress may have relaxed. During the height of the aid cut-off to Peru in 1964–66, Congress was surprisingly passive; but State remained gun-shy from the Hickenlooper episode.

With regard to Latin America, the existence of Congress means that we sell less military equipment, lean harder on human rights issues, re-evaluate stagnant policies and bureaus more often, protect American citizens and corporations more actively and diligently, and are more dilatory and niggardly in giving aid and economic/trade concessions.

Officials in the Executive Branch would not quibble with the values underlying Congressional foreign policy, only with the priorities and the weights

³⁴ *New York Times*, June 27, 1974, p. 8.

CHART II.—OSCILLATIONS OF THE OPERATING PRINCIPLES OF CONGRESS
AND STATE WITH THE RESULTING POLICY OUTCOMES



attached to particular values. The tension between institutions in formulating American foreign policy, therefore is *in the trade-offs* (human rights, protection of foreign investment, etc. vs. "well-balanced" relations; domestic economy vs. development assistance, etc.) and *on the margins* (more or less military equipment; more or less attention to human rights). Organizational reformers must see to it that decisions are made in forums in which trade-offs are faced and answered, and alternatives are imaginative but feasible.

The Congress and the Executive Branch operate in accordance with different institutional principles and priorities; there will always be some degree of tension between them. The challenge is to find ways to keep the tension within reasonable bounds, where it can be constructive.

(7) *Implications for Organization and Policy*

Using the previous analysis, one would conclude that State's traditional procedures for coping with Congressional assertiveness have proven ineffective and at times, for example when it induces Congressional obstinacy, counterproductive. Presently viewed by Congress as unresponsive or deliberately evasive, the State Department needs to change more than just its image. To work openly and more candidly with Congress would require three changes: (1) a clear policy statement by the Secretary of State; (2) a changed attitude by Foreign Service Officers towards Congress; and (3) an institutional backstop which would provide the expertise necessary for improved communication with the Congress and for implementation of the first two changes.

Since the Liaison Office in the State Department is the focal point of interaction between State and Congress, proposals for institutional change should begin with a complete re-evaluation of the role, size, importance, and organization of the Office, particularly since that office has probably undergone less change than any other office in the Department.

While the rest of the Department has mush-

roomed, Liaison remained at approximately the same size—25 officers or .5% of State's Washington-based personnel.⁵⁵ The Office's functions have necessarily had to stay as limited, and they can be subsumed under two categories: "fireman" and "messenger carrier." One Liaison Officer estimated that he spent 95% of his time "putting out fires on the Hill," i.e., trying to prevent or water-down assertive Congressional amendments. To other State Department officers, Liaison Officers function principally as "messenger carriers," transmitting letters from Legislators to Country Desks and back again. Assignments to Liaison therefore rank at the bottom of a Foreign Service Officer's list.

The roles of "fireman" and "messenger carrier" are not only inadequate, they are detrimental to a constructive relationship between the Branches. Not only is State always seen on the Hill in a *negative* capacity, coming only to obstruct Congressional initiatives; but a mirror image is reflected back to Foggy Bottom: the Hill is seen as obstructionist and irresponsible. *At its current size, Liaison can play no other role.* Therefore, as a first step, the Office needs to be enlarged.

Secondly, the incentive system must be altered so that it becomes a matter of prestige for an FSO to serve in Liaison. Composed of different people (non-FSO's) with different experiences and orientations, Liaison is often viewed as managing Congress while the rest of the Department manages U.S. foreign policy.

Thirdly, the FSO's should be trained in Congress. There is a danger if the FSO is trained in State and works in State that he will retain the spirit of condescension, which characterizes State's attitude towards Congress's expertise and actions in foreign policy. He may lose this if he understood

⁵⁵Liaison Office has twenty-five officers compared with 5,108 officers in the State Department in Washington and 8,970 officers world-wide. Department of State, "Submission to the Commission on the Organization of the Government for the Conduct of Foreign Policy," February, 1974, Table I, p. 18a.

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the pressures, priorities, and perspective of Congressional offices.

Lastly, the Congressional Relations Office needs to be reorganized, by dispersing Legislative Officers to Bureaus where they would serve as a source of expertise on Congress and as a *catalyst and a conduit*, organizing regular meetings between senior-level officials and Legislators. By keeping officials attuned to the thinking in Congress, the Legislative Officers would encourage a view that domestic political management is an important part of their jobs.

Additional mechanisms for restoring trust between the two Branches are granting increased access to State Department files for Legislators and Aides and installing an effective and systematic declassification system, which would permit automatic access after one year. While not inhibiting decision making, the one year declassification interval would serve to keep the system honest and open, and would permit scholars to do more relevant and useful research.

For its part, Congress must build better channels to State, while the Foreign Affairs Committees build better bridges to other Committees. A systematic cross-referencing system must be devised and implemented to insure that Committees and members with an internationalist perspective can provide input into "domestic" Committees considering bills with foreign implications. The Foreign Affairs Committees also need to establish better links with Embassies and with foreign countries.

In tax and trade legislation, the issues and amendments are so intricate that the full House cannot deal with them. That was the source of much of Chairman Mill's power, and that is why those issues which affect foreign relations so directly need to be considered by Foreign Affairs Committees, whose perspective permits broader considerations.³⁶

In addition, members and staff of domestic committees could increase their awareness of the international implications of domestic issues by more contact with their counterparts in other countries and by attending international conferences which deal with issues of relevance to their committees. Members of the foreign affairs committees should not be the only Congressional participants in these conferences; the House Merchant Marine and Fisheries Committee and Senate Commerce Committee should attend the Law of the Sea Conference; the Agriculture Committees, the World Food Conference, etc. And more interparliamentary meetings

³⁶In arguing against this, one Staff from the Ways and Means Committee said that the House Foreign Affairs Committee can not handle the trade bill since "they don't have the relationships with economic interests which the Committee [Ways and Means] has."

under OECD auspices would no doubt be of considerable value.

These organizational suggestions are not panaceas. The problem of reconciling domestic with foreign policy interests is not one which is conducive to a single solution—either policy or organizational. What I have attempted to show, however, is that Congressional "orientation" and the forum within which legislators consider alternatives appears, in some cases, to be inappropriate to the nature of the questions being considered.

Similarly, the organizational recommendations for making State more responsive to Congress are admittedly insufficient. Reorganization alone will not alter the deep distrust which many Legislators and Aides feel towards State, particularly when cases like "political destabilization" in Chile surface to disillusion those who trusted State and confirm the worst suspicions of those who didn't. The burden is on State to show that it is responsive to Congressional concern and to explain and to consult with Congress not only five minutes before important policy statements but on a routine basis.

But this too is insufficient. What is needed is a new understanding of what constitutes "foreign policy." The Constitution together with the modern political process suggest the following definition: that foreign policy is not foreign policy until and unless it is ratified in some way by Congress. Foreign policy makers need to factor Congress and the interactive process into their decision. If the gap between the policy and the outcome remains, as is likely, then they need to either adjust the policy to the process, or devote the time and energy to insure that the outcome is consistent with the intent of the policy.

ANNEX

Consultants and Interviewees

I. State Department and A.I.D.

Richard Bloomfield, Director, Office of Policy Planning and Coordination, ARA
Frank Devine, Director of North Coast (Venezuela and Colombia), ARA
Luigi Einaudi, Policy Planning Council
Allan Furman, formerly Deputy Director for Legislative Programs, A.I.D.
Julius Katz, Deputy Assistant Secretary, International Resources and Food Policy, Economics and Business Affairs Bureau
George Kenney, formerly Economic Policy Staff Director, Bureau of African Affairs

William E. Knepper, Director, Office of Regional Economic Policy, ARA
 David Lazar, Director of Central America desks, ARA
 Jean Lewis, Congressional Liaison Office, A.I.D./IA
 Sam Lewis, Deputy Director, Policy Planning Council
 William Lowenthal, Deputy Director, Bolivia-Chile Affairs, ARA
 John Maitso, Political Affairs Officer, Colombia, ARA
 Mary Manzoli, Latin American Specialist, Bureau of Intelligence and Research
 David Merrill, A.I.D./Cambodia
 Paul Pilkauskas, Tropical Products Division, Office of International Commodities, Economics and Business Affairs Bureau
 Charles Reynolds, Office of Regional Economic Policy, ARA
 William Richardson, Legislative Officer, AF, ARA, CU, Office of Congressional Relations
 Michael Samuels, Executive Assistant, Office of the Deputy Secretary, formerly Special Assistant to the Assistant Secretary for Congressional Relations (Dr. Abshire), and Legislative Advisor to Undersecretary of State (Rush)
 Alexander Schnee, Legislative Officer, Foreign Assistance, Office of Congressional Relations
 Godfrey H. Summ, Director, Office of Research and Analysis for Africa and the American Republics, Bureau of Intelligence and Research
 Daniel Szabo, formerly Deputy Assistant Secretary for Economic Policy, ARA
 H. Francis Wanning, formerly with the Tropical Products Division, Office of International Commodities, Economic and Business Affairs Bureau
 Paul Ward, Chief of Analysis and Requirements Division, Personnel and Management, formerly Administrative Officer, American Embassy in Dominican Republic

II. Congress

Frank Ballance, Administrative Assistant to Senator Jacob Javits (telephone conversation)
 Colin Bradford, Legislative Assistant, Senator Lawton Chiles
 Steve Bryan, Administrative Assistant to Senator Clifford Case (telecon)
 Frank Church, U.S. Senator from Idaho
 Scott Cohen, Administrative Assistant to Senator Charles Percy (telecon)
 Thomas A. Dine, Administrative Assistant to Senator Frank Church

Robert Dockery, Staff Consultant to the Subcommittee on Western Hemisphere Affairs, Senate Foreign Relations Committee
 Michael Finley, Staff Consultant to the Subcommittee on Inter-American Affairs, House Foreign Affairs Committee
 Donald Fraser, U.S. Representative from Minnesota
 Harry Lamar, Staff Consultant to the House Ways and Means Committee, House of Representatives
 Jerome Levinson, Chief Counsel, Subcommittee on Multinational Corporations, Senate Foreign Relations Committee
 George Ingram, Staff Consultant, Subcommittee on Foreign Economic Policy, House Foreign Affairs Committee
 Roger Majack, former Administrative Assistant to Rep. Jonathan Bingham (D-NY)
 Richard McCall, Administrative Assistant to Senator Gale McGee
 Mark Schneider, Administrative Assistant to Senator Edward Kennedy
 Paula Stern, Administrative Assistant to Senator Gaylord Nelson
 Larry Tell, former Foreign Policy Advisor to Rep. Michael Harrington (D-Mass)

III. National Security Council

John Bushnell, formerly on National Security Council; presently Department of Treasury
 Stephen Low, Senior Staff on Latin America
 Arnold Machmanoff, formerly Senior Staff on Latin America

IV. Foreign Affairs Division, Library of Congress

Marjorie Browne, Specialist on Foreign Policy
 John Costa, Specialist on International Economics
 Theodore Galdi, Specialist on International Economics
 Dr. William Gibbons, Chief of Foreign Policy Section
 Virginia Hagen, Specialist on Latin America
 Lois McHugh, Specialist on Congress and Foreign Policy
 Barry Sklar, Chief of Latin America section

V. Embassies

Victor E. Beauge, Secretary of the Embassy of Argentina
 Alexander Orfila, Argentine Ambassador to the United States

Some Suggestions for Improving the Organization of the Bureau of Inter-American Affairs

Harry Weiner
December 1974

Introduction

Our group has examined whether between the occasional statement from high places of policy toward Latin America and the day-by-day actions of carrying on these policies, there falls a shadow. If so, what kind, and why?

With that perspective in mind, my paper deals with the Bureau of Inter-American Affairs, and discusses aspects of its organization and processes, attempting to discover and describe problems and ways of bringing about improvement. I have interviewed officers within the Bureau as well as in its organizational environment: other parts of the Department of State, other parts of the U.S. government, foreign missions in Washington, and foreign and U.S. non-governmental organizations.

In a second part of the paper, I discuss a specific analysis of the current state of quantitative analytic skills among the mid-level substantive officers of the Bureau, explaining why I think these skills are important and suggesting some modest remedial training.

The Problems of "clientism" and "parochialism"

An old and oft-heard criticism of the Department of State and particularly of the Bureau of Inter-American Affairs is that within the U.S. Government, the State officers tend to be uncritical articulators of the interests and policies of the countries with which they deal. Thus, officers in the Office of Brazilian Affairs might be thought of by others in the U.S. Government to be advocating Brazilian views in the interests of "good relations" between the governments of Brazil and the United

States. A corollary of "clientism" which has been heard more recently is the charge of "parochialism"—the inability to connect the stream of events and options in a bi-lateral relationship to the larger view of U.S. relations with other areas of the world. Both these criticisms probably have somewhat less substance than is often claimed, but have enough to be important obstacles to the carrying out of policies.

Some of the organizational causes of and (possible) cures for "clientism" and "parochialism" are the assignment system. It is increasingly widely being realized that there are at least five "foreign services" rather than one, and these correspond to the areas of Latin America, Africa, the Middle East, the Far East, and Europe. That is, individual officers spend so much of their careers in one of these geographical areas (including service in Washington at one of the country desks) that they become closely identified with an area and a set of countries or a country within the area that they lose perspective with regard to the larger framework of U.S. foreign policy.

It was to this problem that Secretary of State Kissinger addressed himself in the Spring of 1974 in his instructions to the Director General of the Foreign Service to institute new assignment procedures called the "Global Outlook Program", now known throughout the Department as "GLOP". The Program's objective was to ameliorate parochialism, the process was to require that at least 20% of the Foreign Service Officer Corps are at any given moment serving in "out-of-area" assignments. To an observer, this seems a modest figure. The difficulty in implementation of this modest objective is perhaps an indication of how valid was the criticism of "five foreign services".

As of the writing of this paper, the Department

had released no data aimed at measuring the phenomena of "in-area" and "out-of-area" assignments. However, some notion can be derived by using the Department's *Telephone Directory* and *Biographic Register*. The Directory lists the key officers of every Bureau. The Register gives biographical data on officers including area and duration of assignments. This permits calculation of a rough "Bureau retention index" for each key officer, arrived at by finding the ratio between total time as a Foreign Service Officer or Civil Service employee and the amount of time he has spent within the Bureau in which he is currently a key officer ("time within the Bureau" being defined to include both field posts and Washington Service). Thus, if Mr. X, now a country director in the Bureau of Inter-American Affairs, has been in the Foreign Service for 20 years and has spent 12 of those years in the Bureau, his "retention index" would be .60. Using the latest *Register* and the May 1974 *Telephone Directory* and making calculations for the top 20 officers of each of the five geographic bureaus, average retention indices were:

Africa	Far East	Europe	Middle East	Latin-America
.51	.65	.64	.67	.71

There are, of course, a number of explanations for the outliers on this distribution. The Bureau of African Affairs has a large number of posts which are relatively new; it is thus in some sense an "expansion Bureau" in which some of its people would necessarily have come from "outside". The Bureau of Inter-American Affairs has a large number of posts at which Spanish is spoken; thus, intra-Bureau assignments are made "easy". Nonetheless, we can see from this assignment pattern a partial explanation of how "clientism" and "parochialism" are fostered by the personnel system to the detriment of over-all foreign policy.

Recommendation: That "out-of-area" assignments be institutionalized and regularized in the personnel system, and not be dependent upon the preferences of one or another Secretary of State. Only the knowledge that such assignments are a continuing practice can make them palatable to the Bureaus, who must sacrifice expertise in the short run, and fair to the individual officers, who will find themselves more often than before "beginning at the beginning" in acquiring professional knowledge.

The assignment process is only a partial explanation of "clientism" and "parochialism". An additional explanation lies in the way an officer's performance is appraised and rewarded. The question of what constitutes good performance is a vital question in all organizations. In those in which the

tasks of the organization are clearly and simply defined, and its output measurable, performance appraisal is made much easier. Otherwise, the tendency grows to appraise the way in which an individual does his job, rather than what he does. Officers in the Bureau of Inter-American Affairs, at all levels, find themselves in the latter position, to a greater extent even than officers in Bureaus where one or two policy issues dominate all others. Absent a dominant issue, and absent a system of priorities among mid-range issues, the individual officer tends frequently to micro-policy. Keeping his shop in order becomes his task, there being no reward for expanding his scope. Who will know it if he takes a more global view of U.S. policy toward Country X? Since promotion is almost wholly dependent upon the single annual performance appraisal made by one superior officer, who himself in all likelihood is engaged in narrowing his scope rather than broadening it, how can the officer justify to himself the risk of even a partial failure? Much safer the path of small actions, of the quiet situation, and the transfer of attention to a preferred *style* of operating and away from the substance of those operations.

Recommendation: Performance appraisal and promotion in the Bureau of Inter-American Affairs of course cannot be separated from the Department as a whole. The present system grows from statute (the Foreign Service Act of 1946) and would require legislation for major changes. Viewed from the Bureau level, the present system is a sufficiently powerful distorter of policy to warrant consideration of such a major change.

The Problem of Organization by "Country Desks"

Notwithstanding the existence of a number of regional and functional units, the basic organizational form of the Bureau is the country desk: these are sometimes grouped on the basis of geography: the Office of Argentina-Paraguay-Uruguay Affairs, Bolivia-Chile; Caribbean, Central America, Ecuador-Peru; others stand alone: Brazil, Cuba, Mexico, Panama.

Resources in the form of officer manpower are deployed to fit this organizational form according to a general model of one man, one country. The variations from this form do not alter its general outline. Thus, each country, or set of countries, has a "Country Director". Among Country Directors there is no hierarchical distinction reflective of explicitly varying values attached to U.S. relations with those countries. Below the level of country director, the same assumption prevails. Rarely does

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any country have less than one person assigned to it full-time; rarely does any country have more than a half-dozen officers assigned to it. Most commonly the country-to-country variation is even less, the organizational form tends toward an equalization of manpower. *The result is to distort the relative importance of each of the countries of Latin America to the U.S. by allowing policy-makers to avoid the hard necessity of deciding on a concrete preference order among U.S. interests.* It is no exaggeration of fact to conceive of Mexico as being 15 times more important to the U.S. than El Salvador; of Brazil as being 100 times more important than Barbados. But the organizational form encourages a "free market" among competing desk officers, which is reinforced by the performance appraisal system. Officers responsible for U.S. relations with a given country do not get credit for urging that attention and resources go to some other country. It is neither hard nor fictitious to hypothesize an able, energetic officer assigned responsibility for U.S. relations with Costa Rica, for example, to successfully compete with another officer, or officers, assigned to another Latin American country desk, competition carried on by securing the attention and approval of higher policy levels, and resulting in special treatment for "his" country.

Recommendation: That existing regional offices in the Bureau be strengthened by the assignment to them of additional manpower, drawn away from country offices, and that the regional offices be charged with the continuing responsibility for establishing priorities among U.S. objectives and interests.

Change of emphasis to regional rather than country organization also would help in improving resource allocation to new and important items on the policy agenda. Topics such as technology transfer, science policy, food, fuels, population, law of the sea, pollution—which are often area rather than country specific, are now "dumped" into the regional offices where, in the absence of the kind of clout the country offices command, they receive less attention than they should.

The Problem of Creativity

At the time of this study, the officer on the Secretary's Policy Planning Staff responsible for policy toward Latin America was an appointee not from the Foreign Service and the Bureau of Inter-American Affairs, but from an academic and policy research background. Further, it was widely agreed that the incumbent was highly qualified and highly competent, and compared favorably with his age cohorts in the Bureau. This raised the question of

whether service and experience in the Bureau is likely to be a help or a hindrance in making up the human pool from which high-level policy making, planning, and implementation resources are drawn. At present, it appears that the requirements for success over time in the Bureau are not likely to nurture the qualities of creativity, innovation, broad-mindedness, that are important to the policy process. Style rather than substance, promotion-oriented job performance, narrowness of scope, avoidance of conflict seem to be emphasized as appropriate modes of performance given a policy milieu that prizes the status quo and seeks to minimize the surfacing of real policy disagreements between the U.S. and Latin American countries. The aspiring officer knows that bad performance in such an atmosphere is more readily discoverable than good performance. To the question "Does service in the Bureau of Inter-American Affairs tend to debilitate an officer's capabilities for creative contributions to policy making?", the answer may not be an unqualified yes, but the tendency is sufficiently strong to cause concern. Remediation may lie in part with some of the recommendations made herein, and in part recognition that, barring major and difficult organizational change, the successful day-by-day conduct of routine relations in the present framework is a desirable end-product in itself, and the production, through this process, of individuals with the background and inclination for policy-making is in the main unlikely. The present process seems to consume good people rather than produce them. If the product is valuable enough to continue the process, we should consider the using-up of potential policymakers a cost that must be borne in order to achieve the desired benefits. What exists now is close to the phenomenon of "cloning"—officers at the junior level vary widely in their viewpoints, styles, ways of approaching problems, but year by year this variance is gradually but steadily reduced, so that officers over the age of 40, at the level of country director and above, look, act, and think in a dangerously indistinguishable manner.

The Problem of the Relationship Between Morale and Routine Relations

Over the long run, Latin American-U.S. relations may well be less important than those between the U.S. and several other areas—China, U.S.S.R., Western Europe, the Middle East, and Vietnam—especially if importance is measured by the degree of personal attention to Latin America given by the President and the Secretary of State. It requires an unusual event to elevate Latin America to the Sec-

retard and Presidential levels. One result is that some officers of the Bureau, therefore, consider themselves second-class citizens, their work unappreciated, their problems receiving less attention and resources than they deserve. The other side of this coin is that some of the same officers regard Latin America as the private preserve of those who are expert on the area and hold positions of official responsibility. If this view was accompanied by a predilection for innovative policymaking, there might be some real benefit, but more commonly the objective of policy becomes keep-the-lid on, else "our" prerogatives will be challenged by "intervention" by those higher up. So long as things are quiet, power continues to reside in the Bureau; if things get out of hand, authority is lifted away by the Secretary.

There is no organizational solution to this problem that does not incur concurrent costs. Some Bureaus in the Department of State will receive less attention than others; to artificially shift the Bureau of Inter-American Affairs upward on the attention agenda means that another bureau or bureaus must move down. It is a simple but hard to swallow fact, analogous to that of performance appraisal: only fifty percent of a group can be in the upper half. There does seem to be an unusually wide gap in the day-by-day relations between Assistant Secretaries of the Bureaus and the Secretary of State. Neither officers on the inside nor those on the outside have the feeling that there is a continuous line from the lower levels that travels up through the Assistant Secretary to the Secretary. In one sense, of course, this is the basic problem merely re-stated, but in another sense a closer relationship between those two officers would be of substantial help in ameliorating this problem.

The Problem of "cones" in the Department's Personnel System

For several years the Department has employed a "cone" system for assignment, training, and promotion of Foreign Service Officers. "Cones" are specialties; there are four: political, economic, consular, and administrative. Every officer very early in his career is placed into one of the cones. The officer himself has a considerable voice with regard to which cone he enters. The decision depends upon his past training, experience, and his future interests. The recruitment system is affected by the cones. If political officers are in over-supply, fewer of that background and aspiration are admitted to the Foreign Service. The system arose to meet the need for specialized knowledge and to rationalize a competitive promotion system where apples in the

form of economic officers were competing against oranges in the form of administrative officers. Now officers compete for promotion only against officers of the same class (pay grade) and cone. Much of the criticism now voiced against the cone system is based on its effect on promotions; political officers no longer dominate the promotion lists as they have in the past. A more valid criticism seems to be the effect of specialization on performance. *Drawing the lines between specialties so distinctly has had the pernicious effect of signalling minimal standards of performance and encouraging non-integrative approaches to policymaking and problem solving.* To be clearly labelled an "economic officer" has absolved those officers of the responsibility of learning political analysis; political officers now feel no pressure to be familiar with basic economics, etc. Attitudes and styles of thinking have become narrower; the intellectual urge to gather resources and tools for problem-solving from wherever they can be found is now officially albeit unwittingly discouraged. This is felt sharply in the Bureau of Inter-American Affairs where no single policy issue dominates but rather a wide range obtains, requiring an integrative approach.

Recommendation

Without abandoning specialization, the cones should be made less rigid in their compartmentalization, and a new emphasis placed on integrative skills. A first step would be to encourage political officers to attend the excellent 22-week Foreign Service Institute course in economics. Similar training opportunities should be offered to administrative and consular officers if they aspire to significant management positions later in their careers. Failure to avail oneself of such training opportunities should be regarded, as in the armed services, as a declaration of disinterest in promotion to the highest ranks.

The Problem of a "combined" Bureau

The Bureau of Inter-American Affairs is unique in the Department of State and the Agency for International Development in the degree to which both agencies are "combined" or "integrated". This dates from the early 1960's and the large-scale aid programs of the Alliance for Progress. Even at the present writing, the Assistant Secretary for Inter-American Affairs is also titled the "U.S. Coordinator for the Alliance for Progress" although no significant mention of the Alliance has been made in policy papers for a number of years. The combin-

ing of State and AID is squarely in the tradition of public administration theory which holds that coordination among sub-units of a larger complex organization is among the pre-eminent requirements for successful program operations. Although many units within the Bureau are either "pure" State or AID, many others, notably the country offices, have officers of both agencies working together, including hierarchical relations, with the usual pattern being to have a Foreign Service Officer as the Country Director, and an AID officer as the deputy. At lower levels, State and AID officers work together "back-to-back"; this commonly used expression could well serve as an unconscious sexual metaphor for an unproductive relationship. For there is real doubt as to whether the objectives of coordination are achieved in the current organizational arrangement. If State and AID are thought of as two streams of personnel resources that are joined together for symbiotic purposes, then the effect is largely illusory. There is no central office in the Bureau that asks the question "What kind of people and skills are needed to deal with a particular problem or policy?", and then seeks to meld State and AID personnel resources on the assumption that each has a different and complementary contribution to make. The personnel process for staffing combined offices is almost wholly disconnected and haphazard. If State and AID are thought of as independent agencies with different and at times competitive programmatic objectives, then the enforced propinquity can be seen to have costs and benefits. State dominates AID in its monopoly of supervisory positions; AID then must pursue its policy objectives either openly through those sub-units of the Bureau which it controls, or opportunistically in those offices where it is at a hierarchical disadvantage.

This is an organizational problem, the solution to which is more likely to come in the reduction of the scope of AID program activities rather than through deliberate organizational re-design. Probably the time is already past when anything like equality of numbers of personnel between State and AID is desirable or necessary. The number of AID officers in the Bureau can be curtailed now; in the near future only a residue of advisers need remain. It is unclear that a fading away of the AID component of the Bureau would be a cause for regret. As an organization, AID's capacity to perform its main tasks has eroded at an accelerating rate; the debilitating effects of parochialism, organizational self-perpetuation, poor recruitment, inadequate training, absence of a career development strategy are clear warnings to State and other agencies.

The first part of this paper dealt in a general way with the organization and personnel system of the

Bureau of Inter-American Affairs from the viewpoint of the effect aspects of the system may have on U.S. policy towards Latin America. This part focusses more narrowly on the specific question of the stock of quantitative analytical skills among mid-level officers of the Bureau.

Why are these skills thought important? Because foreign policymaking and implementation fall into that general category of activity that draws upon the social sciences and the humanities for the intellectual tools with which to solve problems. Akin to diplomacy are the classical professions, as well as the other branches of public service. All of these have a definable area of the intellectual and academic disciplines from which are drawn basic concepts and approaches. Medicine looks to biology and chemistry, engineering to physics and mathematics, law to history and sociology. In public service, considered in a broad context, the social sciences, especially economics, statistics, political science, and psychology have formed the pool of theory from which applications have been developed. The basic trend in those fields over the past three decades has been towards systematic and quantitative analysis. Economics has been transformed almost totally in this direction, the other social sciences follow at different but steady paces. What are the reflections in the public service of this phenomenon? Less and less is law now the typical background for the public servant at the policy level; more and more is a background in the applied social sciences coming to be considered the appropriate preparation. This trend has become even more marked as the definition of "public sector" has been re-defined to include the range of private institutions supported by government funds to provide public services, "think tanks", and consultant firms that apply social science techniques to public sector problems to the extent that they have assumed the functions previously done within more traditional areas of the public service.

If we look at current trends in professional training for the public service, we see the swing away from the historical, descriptive, anecdotal curriculum toward the quantitatively analytic.¹ Professional programs for the teaching of these techniques have been started in the current decade at universities such as Harvard, Yale, Berkeley, Michigan, Stanford, Minnesota, Texas, Pennsylvania and others, while existing older programs of preparation for public service—the Woodrow Wilson School at Princeton, the Maxwell School at Syracuse, the Schools of Public Administration at New

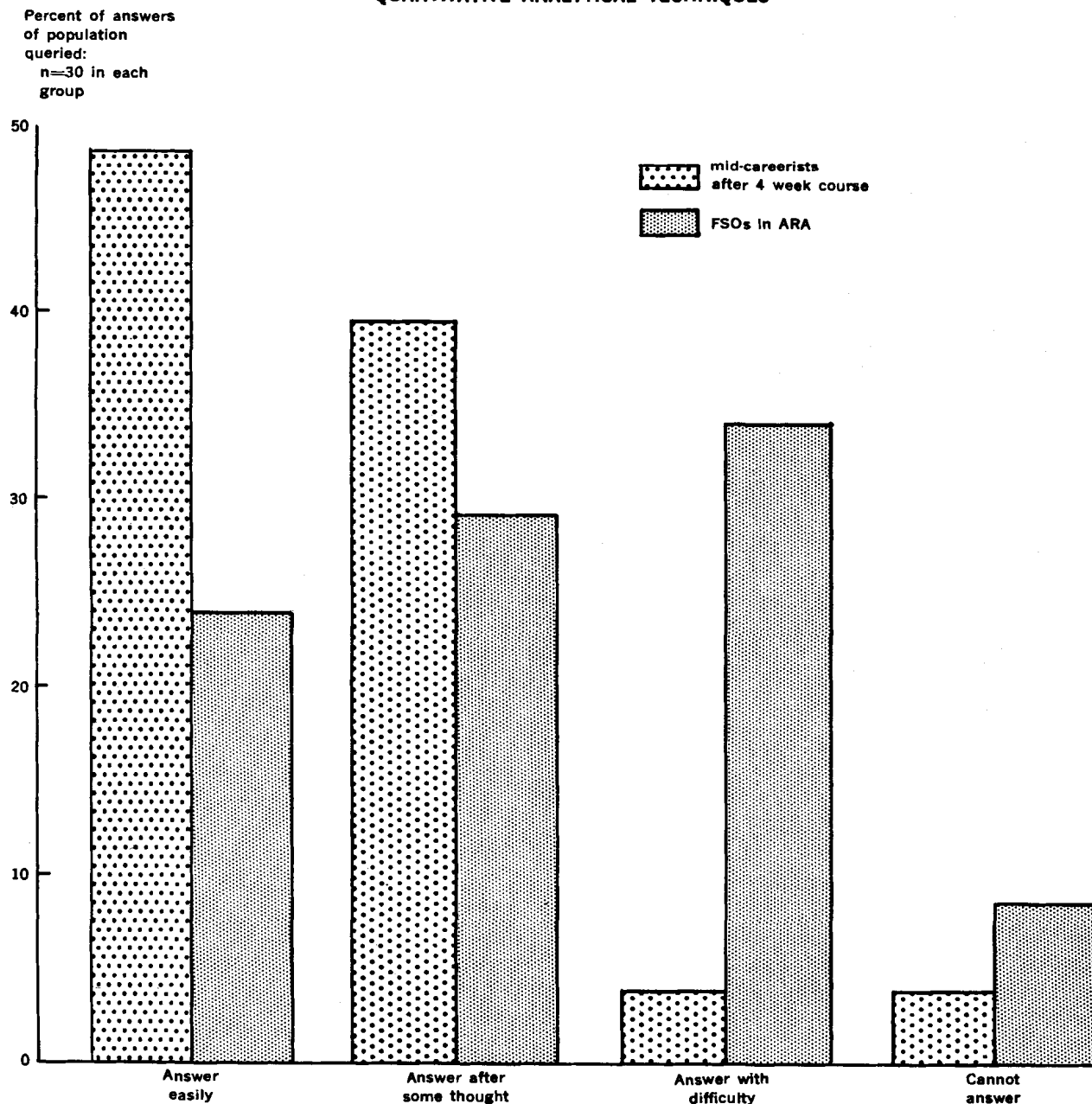
¹Don K. Price, *Education for the Public Service*. (Harvard University, 1974) R.L. Chapman and F.N. Cleveland, *Meeting the Needs of Tomorrow's Public Service: Guidelines for Professional Education*. (National Academy of Public Administration, January 1973).

York University and the University of Southern California have moved their curricula in the quantitative direction.

What does this mean to the mid-level substantive officer in the Bureau of Inter-American Affairs? Is his appropriate intellectual base still history, political theory, and foreign languages? Is the only professional preparation for his job the actual doing of the job itself? Is on-the-job training the only effective training? Probably not. What are the day-to-day problems and policies faced by substantive

officers in the Bureau? In addition to standard political and economic relations, there are a whole set of relatively new problems: science and technology transfer, the environment and ecology, alternative sources of energy, fishing rights and the use of the seas in general, population, food supply, human rights, narcotics control, arms sales, alternatives to the Panama Canal, and others. What skills are needed to address these problems? Certainly the traditional stock in trade of Foreign Service Officers—clear writing and effective speaking—have not

CHART I.—RESPONSE TO QUESTIONNAIRE ON ATTITUDE TOWARD QUANTITATIVE ANALYTICAL TECHNIQUES



lost their importance and are not likely to. But other skills and procedures are now called for as well. The officer needs to be able to:

a. structure the behavior of the decision-making system with which he is dealing and identify the variables that are subject to manipulation. When one variable changes, what are the repercussions in the rest of the system? This is modelling, of which mathematical modelling is a form;

b. decide what he values in a particular situation and develop a procedure for combining different objectives so that their relationship to each other is explicit;

c. assess the possibilities for gathering additional information to help inform decisions, and estimate the costs of that additional information against potential benefits;

d. place a particular decision in its larger context. When does a central concern turn out to be part of a connected chain, so that what appears to be a narrowly-focussed action has important ramifications across a wide range?

Against this background, a questionnaire was developed and administered, designed to get at the attitudes of officers in the Bureau toward quantitative analytical techniques. The questionnaire does not measure actual ability to use the techniques; it is concerned with attitudes toward them. However, to assess his attitude, unless they are immediate "gut" reactions, the officer usually must work part of each question or else estimate how he would go about working the question. As an aid, if desired, the computational answers were provided along with the questions. The officer was asked about a group of questions that varied in difficulty whether he could:

1. answer easily
2. answer after some thought
3. answer with great difficulty
4. not answer

The same questions were administered to a comparable group of mid-career Federal officials who had just (August, 1974) concluded a four-week course at the John F. Kennedy School of Government at Harvard University on "Quantitative Analysis for Public Administrators". The purpose of the comparison was to help draw some conclusions about the remedial effectiveness of a short course; that is, what is the cost in time, effort and money to upgrade quantitative analytical skills?

The accompanying chart depicts the comparison:

The observation that can be drawn from the results is that the stock of quantitative analytic skills in the Bureau is by no means very low. Nonetheless, it would seem that a well-constructed remedial course at the Foreign Service Institute could improve the stock of skills as well as the confidence in and ease with which those skills might be applied to their everyday work.

On the other hand, only five per cent of the Bureau officers, prior to doing the questionnaire, when asked what skills were important to their jobs, alluded to quantitative analytical skills. More often they replied "managerial", "human relations", and "writing". However, when asked afterwards whether the skills dealt with in the questionnaire would be useful and important to their jobs, the percentage of "yes" answers was seventy-five. This is impressive, even discounting for the tendency to give an answer that will make the interviewer happy. Thus, a remedial course would have to address not only the question of how to do quantitative analysis but also why.

The American Commonwealth

Ernest R. May
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In 1973, a group of us spent a Saturday in the common room of the Woodrow Wilson Center in Washington. Our object was to find out how the U.S. government had been handling Latin American policy. We were not asking about the policy itself but about the processes: the means by which issues were perceived, options defined, and decisions taken.

To this end, we took testimony from a series of guests, including a former Executive Secretary of the State Department, a former Assistant Secretary of State for American Republics Affairs (ARA), a high official of the Treasury, a Latin Americanist who had been on the National Security Council staff, an analyst from the CIA, and two men who had been in the Office of International Security Affairs (ISA) in the Department of Defense.

The questions we were posing had, for some time, been puzzling to me. During the morning segment of our session, they became no less so. Then, around noon, I experienced a moment of illumination. I suddenly realized that in the U.S. government, Latin American affairs were not approached, and should not be approached, as counterparts to European, Asian, or even African affairs. Instead, the processes needed to be conceived as similar to those used by the British government in managing relations with the Commonwealth or by the French government in dealing with the *communauté française*.

The points of similarity are many. The first is the assumption of a special relationship. People in Washington who deal with Latin America, like those in London who deal with the dominions, take it for granted that it is of high importance to maintain good relations with the governments that are their concerns. They assume that these governments are in some sense permanent allies and, hence, entitled to complain of not being consulted on larger issues of foreign policy. They also assume that these governments have a right to plead for special treatment in regard to aid, trade, and mone-

tary arrangements. And they assume that it is somehow incumbent on their own government to show that it cares about the welfare of the other states' citizens, that it is not as indifferent to starvation in northeast Brazil or brutality in Chile as it may be to starvation in Bangladesh or south Saharan Africa or brutality in Greece or Uganda.

The second point of similarity lies in the fact that the special relationships have relatively little intrinsic importance. They are left over from the past: in the case of Britain and France, from the era of colonial imperialism, in the case of the United States, from the epoch of the Monroe Doctrine. At one time, it was true that the United States could enjoy some immunity from war and costly military preparedness by being sure that all Latin American states were friendly. At various times, it was also true that the American people needed trade with Latin America. In the second quarter of the nineteenth century, the region absorbed between a fifth and a quarter of U.S. exports, and it was to do so again in the twentieth century in periods of European wars. Latin America has also steadily supplied between a fifth and a third of all U.S. imports. There was once some basis for belief that the safety and prosperity of the United States depended on good relations with Latin America.

Now, this is hardly true at all. It is not clear that if a hostile power controlled all of Latin America south of Mexico and Jamaica, the United States would be worse off from a military standpoint. It might be psychologically injurious, and there might be some disadvantage resulting from loss of access to the region's natural resources, but missiles, aircraft, naval vessels, and landing forces would reach the United States no more quickly than from bases elsewhere. Despite the missile crisis of 1962, it is not even apparent that Cuba's becoming a potential enemy base added to the state of insecurity in which Americans lived in the 1960's. With a hostile Latin America, the people of the United States would not necessarily be in any more grave danger, nor would

the government have an obvious need to devote more resources to readiness for war. Now taking around twelve per cent of U.S. exports and supplying around ten per cent of U.S. imports, the import segment includes many items that can be obtained elsewhere at little added cost, and the total trade approximating less than one one hundred thousandth of the U.S. gross national product, Latin America is also less than indispensable to the economic well-being of North Americans.

Like custodians of commonwealth affairs in London, officials in Washington concerned with Latin America tend relationships which are assumed to be special and important but which actually seem marginal to the point of being inconsequential to other officials occupied with major issues of foreign or domestic policy.

There is yet a third point of similarity. It is the existence in the United States of a very small public which cares a great deal about Latin America. Though the most prominent members are businessmen with investments in the area, this public also encompasses residents and former residents of the Panama Canal Zone and, for special purposes, Cuban emigrés in Florida and some chicanos. In certain respects, these groups are, like those in Britain and France, made up of comparable businessmen, former colonial civil servants, and *ex-colons*. They have a keen, sometimes passionate interest in what their government does in Latin America. Aside from a handful of relatively isolated journalists and academics, they are the only people who have such an interest. While the larger public interested in foreign affairs may believe in the special relationship, few of its members pay any attention to Latin America.

Looking toward the future and thinking of how the government might be better organized to deal with Latin American affairs, one must remember these points. And it will not do to say that facts should control and that Latin American states should be considered as indistinguishable from other little developed countries, for the inertial force of history cannot be arrested by fiat. At least for the balance of this century, the notion of a special relationship will continue to grip the minds of officials, legislators, and citizens in the United States who attend to things Latin American. Moreover, from the Latin American standpoint, there will continue actually to be a special relationship. Their security will still be greatly affected by what Washington does. In most cases, exports to the United States will remain vital to their economies. Almost equally vital will be the role of the United States, whether directly or through international agencies, as lender or giver of funds. Actual or prospective U.S. investments will occupy a huge place in the domestic economic scene. Justly or not,

Latin Americans will continue to suspect that U.S. agents exercise major influence in their own domestic politics. Even if belief in a special relationship could somehow be rooted out of North American minds, Latin Americans would, with some justification, persist in feeling that they were more affected than people in any other part of the world by what the United States did.

Hence, I would contend that thought about organizing the conduct of U.S. relations with Latin America should start from premises similar to those developed by Lowenthal and Trevorton:

1. A general presumption will hold over the foreseeable future that the United States has a special interest in good relations with Latin America and in political, economic, and social conditions in Latin American states.

2. Except in rare cases, the highest officials of the U.S. government, including leaders in Congress, will not see any specific national interest which is much affected by what happens in Latin America. In fact, they will rarely notice Latin America at all.

3. Public opinion with regard to U.S. policy toward particular Latin American states will consist, in the main, of opinion among the very small group directly affected, primarily those with investment or trading interests.

It follows that what the government does about relations with Latin America will ordinarily be supervised by a person or persons somewhere below the level of major cabinet officers and presidential assistants. Here, the legalistic phrase "person or persons" may identify the first important organizational issue: whether responsibility is to be concentrated or diffused.

At present, many officials share the responsibility. While the Assistant Secretary of State (ARA) is the leading figure, he has to clear much of what he does with the Assistant Secretary of State for Economic and Business Affairs (EB). And this is no *pro forma* clearance, for the Assistant Secretary (EB) is prodded by functionaries of his bureau who, rightly or wrongly, think that ARA speaks for Latin American rather than for U.S. interests and has a parochial view of financial and trade issues.

In addition, the Assistant Secretary (ARA) has to work in the knowledge that some very important U.S. activities in or relating to Latin America are subject to control by people not even in his own department. Since ambassadors are nominally captains of their "country teams" and since they report through him, the Assistant Secretary (ARA) may get some knowledge of what is done or contemplated by agents of the Treasury, the CIA, and the Department of Defense. These agents, however, report to and receive their orders from, respectively, an As-

sistant Secretary of the Treasury, the Deputy Director of Intelligence for Operations, and a complex that includes the Commander in Chief of the Southern Command (CincSouth), the Joint Chiefs of Staff, and the Assistant Secretary of Defense (ISA). Each has a perspective and set of concerns different from those of the Assistant Secretary (ARA).

There is evidence that a determined individual can exercise real leadership as Assistant Secretary (ARA). In different ways, Thomas Mann and Lincoln Gordon appear to have done so. But the set-up of the U.S. government is such as to make such leadership both difficult and rare.

Is this set-up the best we could have? One can argue that it is or, at least, that it is essentially sound. Given the fact that dealings with Latin Americans are only part of worldwide patterns of lending, investment, trade, information collection, political intervention, and military assistance and planning, a case can be made for independent roles for the EB bureau, the Treasury, and the rest. The system is designed to ensure that what the United States does in Latin America is not inconsistent with what is done in the rest of the world; in effect, that if there is a special relationship, there is not much of one.

The evidence presented and analyzed in our cases suggests, however, that the risk of such a relationship, in the sense of special favors to Latin Americans, is likely to be small in any case. As Lowenthal and Trevorton argue, in most decisions, the paramount considerations will not be their effects on Latin Americans, while in those decisions that are seen as Latin American policy, the wishes of affected U.S. businessmen will seem to be controlling. If these generalizations are valid, one can reason that the management of relations with Latin America should be concentrated in order to create greater potential for introducing considerations relating to Latin America into debates where those considerations are not central, and for producing decisions on Latin American policy that in some instances reflect a perspective broader than that of the corporations expecting or fearing injury.

If some person were, in fact, put in full charge of U.S. relations with Latin America, what would his functions be, and how would he carry them out?

In the first place, he would presumably be expected to have a comprehensive view of activities in the United States affecting Latin America and of activities in Latin America affecting U.S. citizens and interests. He should, thus, be the person in government best situated to assess and define the short-range and long-range effects in U.S.-Latin American relations of alternative courses of action open to the U.S. government.

His second function would be to ensure that these probable effects were, at least, understood

and taken into account by those making policy choices and putting them into effect. From what has been said earlier, it should be clear that most of the action will lie with other officials who have other or larger concerns. They could be, for example, the Assistant Secretary (EB), the Secretary of State, and heads of domestic agencies thinking about how to cope with possible shortages of oil or raw materials or how to market and distribute U.S. food surpluses, or the Secretary of the Treasury and members of Senate and House committees weighing changes in tax laws.

This second function would actually subdivide into two functions. One would be simply to ensure that the men who had the action were not ignorant of possible consequences for Latin Americans—that, for example, the authors of tax legislation did not again put restrictions on foundations without awareness that one effect might be to curtail medical programs and thereby raise the death rate among Latin American children. The other, more difficult task would be to exercise persuasion, trying to get executive branch officials and legislators to accommodate the interests of Latin Americans at some cost to citizens of the United States.

The third function would be to superintend U.S. government activities in Latin America to ensure that they corresponded insofar as possible with the policies judged best from some overall perspective of U.S. relations with the region.

To carry out the first of these three functions, the responsible official would need not only brains and experience but also some help. For information and forecasts on developments in Latin America, he could draw on diplomatic and intelligence reportage, but he would need several staff aides to help analyze that reportage and frame questions to be answered by men in the field. For information and forecasts as to the activities of various executive agencies, the Congress, and U.S. corporations, he would have to have a domestic intelligence network and comparable staff assistance. At a minimum, he would need aides with good sources and fingertip feeling for the EB-Treasury complex, the Pentagon, Capitol Hill, and the New York business and financial community. Thus, one has to visualize an analytic and planning staff large enough to require a separate supervisor. In view of other claims on the time of the responsible official, this supervisor would have to serve ordinarily as the intermediary for synthesizing staff reportage and advice.

For the second function would make a very large claim on the official himself. Merely alerting others to possible consequences that might otherwise be overlooked could be done by letter or staff-to-staff communication. Any effort to influence policy, however, would need personal attention. While the official might well draw on his staff analysts and

other advisers to prepare briefs, he would have to argue those briefs himself, making representations directly to cabinet officers, agency heads, the President, and congressional committees.

The third function could also demand some time. Just how much time would depend on how much control the official had over agents of the United States in Latin America. Paradoxically, the greater the control, the less the time, for if the agents were not his own, he would have to negotiate at the cabinet or subcabinet level to get instructions he desired and to see that they were followed; if the agents were his own, he could delegate their management to a deputy, provided that the deputy was his appointee and fully understood his purposes. Ideally, therefore, the official would be the boss for most, if not all, U.S. representatives in Latin America.

One can argue that this should be so. If the points made earlier are true, the U.S. diplomatic corps in Latin America should be different from the rest of the diplomatic service; in effect, a commonwealth civil service borrowing diplomatic badges and titles. Doubtless, it would make sense for diplomats with experience elsewhere to be sometimes seconded to embassies in Latin America. At least as often, it might make sense for military officers to serve as ambassadors or lesser U.S. representatives. Sometimes the best men or women might come from the Treasury or from banks, corporations, law firms, newspapers, or universities. Presumably, the core group should consist of permanent people who always dealt with Latin American affairs, and these people might initially be detached from the existing Foreign Service; but assignments, efficiency ratings, and promotions ought to be wholly within the control of the official responsible for Latin American affairs.

The same should hold true for military missions and perhaps for intelligence and economic missions as well. There are many reasons why the United States should continue to have military missions. Foremost is the fact that in Latin America, armies, air forces, and navies are important political organizations. But it is absurd for U.S. military and naval officers in the region to report to CincSouth, the Joint Chiefs, and an Assistant Secretary of Defense, for their errands have little or nothing to do with preparing for war or safeguarding the security of the United States. They simply maintain or develop good relations with politicians who happen to call themselves generals or admirals and deal with special components of the U.S. aid program. The criteria for military assistance to Latin America bear little resemblance to the criteria applicable in areas where alliance relationships are significant for U.S. war planning. They are, or ought to be, exactly the same criteria applicable to economic assistance,

and the best judge of those criteria should be the official whom we have been discussing. It follows that all military missions in Latin America should be under his exclusive control.

For CIA stations, the case is less clear. Certainly, if there are any future operations comparable to those in Guatemala in 1954 or Chile in the 1970's, primary responsibility should lie with the official superintending Latin American affairs. His role should not be merely that of someone consulted by the Agency at a late stage and, thus, offered an opportunity to fight for a presidential veto. It appears, however, that clandestine political intervention is likely in future to be infrequent or, perhaps, even nonexistent. The Director of the CIA has promised publicly that there will be none without notification to Congress and the American people. If so, the chief function of CIA stations will be collection of information not accessible through formal governmental channels, and the subjects on which such information may be most needed are probably ones best dealt with by officials who have a global rather than a regional perspective. Examples are: movements of funds and supplies for terrorist organizations; nuclear materials and nuclear weapons developments; and the organization of natural resource and commodity cartels. If clandestine political intervention, in fact, ceases, then it might be wisest if intelligence agents remained under CIA jurisdiction with the official responsible for Latin American affairs merely having access to all reports, instructions, and liaison arrangements such as to enable him to ask for intelligence which he particularly desired. What suggests itself is that the Latin American section of the State Department's Bureau of Intelligence and Research be transferred to his control, thus giving him a monitoring capability, and that the chief of this group be made an independent member of the U.S. Intelligence Board.

Economic and financial missions pose comparable problems. To be sure, the official responsible for Latin American affairs would presumably control all U.S. aid programs. This would represent no change, for the Assistant Secretary (ARA) already doubles as Coordinator of the Alliance for Progress and, hence, as supervisor of almost all Agency for International Development (AID) activities in the region. The problems arise with regard to Treasury representatives and U.S. members of such organizations as the Inter-American Development Bank, the World Bank, and the International Monetary Fund, for these people all need to judge issues less in terms of Latin American considerations than in terms of larger resource and monetary constraints. The best suggestion I can offer is that the official responsible for Latin American affairs be given monitoring capability comparable to that for CIA

activities (perhaps the transfer to his jurisdiction of part of the EB bureau of State) and also a conclusive veto on all U.S. appointments to international financial agencies.

If all these suggestions were acted upon, the official responsible for Latin American affairs would be in charge of a large organization independent of the State Department and engaged in some activities quite different from those of State, notably collecting domestic information and lobbying with domestic agencies and congressional committees concerned with domestic legislation. Moreover, he would control an independent personnel system and have relationships with the intelligence community and economic agencies in which he would be a virtual equal of the agency heads or their deputies.

Were these conditions to obtain, it would be incongruous for the official to retain the title of Assistant Secretary of State (ARA). Indeed, it would be somewhat incongruous for him to be anywhere on the State Department roster. Instead, he should probably be a second-level cabinet officer ranking with, for example, the Secretary of Transportation and designated as Secretary for American Republics Affairs. The costs in salaries and added personnel (a General Counsel and Comptroller, for example) would be small, and there would be offsetting side benefits as, for instance, a little relief in the social and travel schedule of the Secretary of State. Probably, the kinds of organizational changes suggested here could not be accomplished unless a new, independent cabinet department were established.

Moreover, there is another compelling argument for such a change. It stems from the fact that the premises previously listed have application to Congress as well as to the executive. In Congress there prevails belief in the special relationship. Indeed, it may be stronger there than in the executive branch. When the major committees and subcommittees consider issues, they seldom notice effects on Latin America or see them as serious factors in the problems they address. Despite their having regional subcommittees, this is almost as true of the Foreign Relations and Foreign Affairs committees as of others. In any case, these committees do not ordinarily consider the kind of economic legislation that has most impact on Latin America. For the most part, such public opinion as the Congress hears on Latin American policy per se stems from affected business interests or special groups such as the Zionians or the Cuban refugees. To establish a closer match between professed beliefs and actions, the Congress, too, should recognize that Latin American affairs are, in effect, commonwealth affairs and not a subset of foreign affairs. The obvious means of doing so would be creation by the House and Sen-

ate of standing committees on American Republics Affairs, each with a mandate to review and report on legislation having significant effects on people in other American republics. If this were done, it would be almost necessary that the official in the executive branch handling such business be a cabinet officer, for committees of the House and Senate quite rightly prefer to deal with men who are immediate representatives of the President and not representatives of representatives.

In summary, therefore, I see the most appropriate organization as a cabinet department, the head of which would be served by an analytic and planning staff with strength on the domestic as well as the foreign side; would directly control all U.S. diplomatic and military personnel and all U.S. aid programs in the region; would control any clandestine operations and monitor all intelligence gathering in Latin America; would monitor activities there of U.S. economic agencies; and would have a voice in selecting U.S. representatives in international economic bodies. This official would be directly responsible to the President and to House and Senate committees on American Republics Affairs.

Were all this to take place, what would be the effects? It is important that they be neither overstated nor understated. The changes would be made in order to accommodate the structure of government to certain conditions. Those conditions would not change. Latin America would not gain intrinsic importance in U.S. foreign and domestic policies. The interested public would alter in neither size nor composition. In all probability, the trends noted by Lowenthal and Trevorton would persist. The interests of Latin Americans would not be given much weight in major U.S. decisions, while decisions concerned with Latin America itself would continue to reflect the preferences of affected U.S. corporations or citizens.

But there would exist in the executive and the legislature some added capacity for producing developments which were exceptions to these trends. We have the example of the international coffee agreement where the costs to U.S. interests were sufficiently diffuse so that leadership from the executive branch yielded an outcome giving precedence to the interests of Latin Americans. The number of such examples might be increased. We also have the famous I.P.C. case in which deference to the injured company produced a series of decisions that served no U.S. interest, including that of the company. Some future cases of this sort might be prevented.

As I see it, the organizational changes outlined here would enlarge the capacity for identifying opportunities to benefit Latin Americans at relatively small cost to North Americans and, at the same time, for foreseeing (anticipating) and, perhaps,

forestalling issues. The Secretary for American Republics Affairs would have to select a finite number of such opportunities or issues and devote considerable effort to each. Only a well-calculated, broadly mounted, and long-sustained campaign could produce another outcome like the coffee agreement. Only a comparable campaign could develop constituencies aware of how another I.P.C. case might injure them, expose these constituencies to bureaucrats and legislators otherwise disposed only to hear the immediately affected company, and generate a more farsighted policy. If one opportunity could be exploited and one calamity averted in every fiscal year, that would be accomplishment indeed.

In no way, therefore, could the probable results be described as more than marginal. Moreover, the quality, energy, and determination of people in key posts would continue to be more important than titles, assignments, flow charts, or any of the rest. But organizational changes could make a difference in the ability of such people to produce marginal changes in policy. However small from the North American standpoint, these changes could affect significantly the welfare of millions of Latin Americans, perhaps even influencing their attitudes toward the United States. In any case, at those margins the actions of the U.S. government might coincide a little more closely with the shared values of the American people.

U.S. Policy-Making Toward Latin America: Improving the Process

Abraham F. Lowenthal and Gregory F. Treverton*
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In reviewing the papers presented in Part I, as well as other studies of U.S.-Latin American relations of which we are aware, we have asked ourselves whether each case provides examples in which U.S. government actions were less than perfectly calculated to advance this country's long-term national interests; whether the imperfections noted were significant and seemingly avoidable; if so, whether the problem thus identified was exceptional or rather more typical; and, finally, whether the U.S. government's actions might have been more appropriate if the country's foreign policy-making processes were somewhat differently structured.

The following pages distill our reflections on these main questions, of special interest to this Commission. We should begin, however, by stating explicitly what we have implied elsewhere¹ about

the nature of U.S. policymaking toward Latin America: we do not regard organizational factors to be major determinants of U.S.-Latin American relations. Objective disparities of power and interest are the main facts shaping hemispheric life. Of comparable importance are the assumptions North Americans and Latin Americans make about relations between their societies. Accepted premise(s), the "mind-sets" of relevant officials, influence which "facts" will be noticed, how these will be understood, and what actions will be considered legitimate responses to perceived problems.

It is fair to observe, therefore, that the nature of U.S. relations with any given country in Latin America would be much more significantly affected by oil discoveries or other real shifts of power to that country on the one hand, or else by systematic critiques of a previously powerful assumption—that a "second Cuba" in the Americas would be intolerable, for instance—than by all the organizational adjustments the U.S. government could endure. Putting essentially the same point another way, The U.S. organizational changes most likely to affect hemispheric relations importantly and visibly would be dramatic steps involving fundamental shifts in U.S. policies and premises, translated into organizational and procedural terms. They would be measures such as withdrawing CIA operatives from Latin America or burning the contingency plans of the 82nd Airborne. Much as we favor some

at all, but are made in other contexts; (6) The processes for making and implementing policies with respect to issues which are thought of as primarily "Latin American"—usually "routine" issues which are far more important to the Latin American country than to the United States—are especially permeable to a wide variety of pressures; (7) The specific and immediate interests of United States companies operating in Latin America are often the main influence on the process of making and implementing U.S. policy.

*This essay constitutes the summary paper of the research project on "The Making of United States Policies Toward Latin America: The Conduct of 'Routine Relations'" carried out under Dr. Lowenthal's supervision on behalf of the Commission on the Organization of the Government for the Conduct of Foreign Policy.

¹See Abraham F. Lowenthal and Gregory F. Treverton, "The Making of United States Policy Toward Latin America," in Abraham F. Lowenthal and Ernest R. May, (eds.), *The Making of United States Foreign Policy Toward Latin America* (forthcoming book to be published for the Council on Foreign Relations). In this essay, we argue that U.S. policy with respect to Latin America is made in a context with the following characteristics: (1) Inter-American relations are inherently asymmetrical, both in fact and, especially, in conception; (2) Latin America is of secondary importance to the United States, in either economic or security terms; (3) Much of the substance of Inter-American relations involves a multiplicity of non-government entities and processes which affect Latin America at least as much, and sometimes far more, than U.S. government decisions and actions; (4) While the interests of the United States in Latin America are weak, the economic stakes in the region of many of its citizens are not; (5) Many U.S. government decisions which importantly affect Latin America are not "Latin American policy" decisions

changes of that sort, we believe this report is not the best place to discuss them; our emphasis here will be on the problems for U.S.-Latin American relations which are related more directly to the nature of the policymaking process itself and on possible remedies which might at least mitigate these problems.²

II

The cases we have reviewed do suggest a range of problems to which "organization," in its widest sense, is relevant. (Since our cases are rooted in U.S. relations with Latin America, our conclusions must be read primarily as pertaining to policymaking toward that region. We suspect, however, that the problems identified run through other sets of "routine" relations as well, for instance those with Africa; this suspicion has been increased by quick comparisons of our findings with studies involving other regions of the world and by conversations with specialists on those regions.)

The most general defect in the processes for making and implementing U.S. policy toward Latin America, one which appears again and again in the cases we have reviewed, is that the set of considerations bearing on policy-makers at the points of decision and action is too narrow. General U.S. interests, both short- and long-term, are often sacrificed for the sake of particular interests, whether of IPC, of tuna fishermen, of shoe manufacturers or of flower cultivators. More important general interests which might be damaged by responding to the pleas of a particular interest often are not taken into account when decisions are made and actions taken. Evaluation of the impact of U.S. government actions on the Latin American countries, and therefore on U.S. relations with them, is often inadequate. Domestic interests in this country, however, are often able vigorously to advance their specific, most often economic, concerns: their views are represented at many different points of access and championed by officials within government, including members of Congress. The result frequently is that the immediate pressures of a single firm or interest group overwhelm other considerations. United States government actions which result may not reflect broader national objectives, even

²As it happens, our thinking on some of the changes in premises and assumptions we feel are required to improve the Latin American policy of the United States may be conveniently consulted in the Report of the Commission on United States-Latin American Relations (the "Linowitz Report"), which we helped to draft. See also Lowenthal's testimony before the Western Hemisphere Affairs Subcommittee of the Senate Committee on Foreign Relations (February 27, 1975).

though those broader goals may be more substantial than the immediate interests at issue and are sometimes equally tangible.

This general problem derives from a number of more specific difficulties. One problem is the fact that the issues which usually comprise the agenda of bilateral relations between the United States and most of the countries of Latin America are minor questions in Washington, however much they may matter to the other country concerned. The subsidy Colombia pays to flower growers (or Brazil to shoe manufacturers) is not an issue which can or should engage high-level attention in Washington. When such matters are dealt with one by one as issues in bilateral relations, creative solutions may be precluded by the impossibility of bringing enough attention to bear on the problem to build a consensus favoring any course more complicated or unfamiliar than what the interested party in this country wants.

A related problem is the tendency of the Executive departments, especially the Department of State, to capitulate to Congressional pressures, however weak or unrepresentative, on matters of this sort. No one can deny that there has existed, in Congress and among the public, a bedrock of conviction—or prejudice—associated with such catchphrases as "sanctity of contract" or "freedom of the seas." But the cases suggest that Executive officials often overestimate the breadth and depth of those convictions. They are not aggressive in arguing that policies which appear to flow directly from those convictions are likely to do harm to actual and enduring U.S. interests. Opportunities to educate public opinion are, thus, foregone. Career officials in the foreign affairs establishment, particularly in the State Department, seem to regard the intervention of Congress in foreign policy matters as somehow barely legitimate, not to be recognized and, therefore, not to be anticipated. They are reluctant to engage in the messy business of "domestic" politics. In several of the cases we have reviewed, State (ARA in particular) was inattentive to Congress and not proficient enough in dealing with its members; the result sometimes was the kind of excessive deference which may be required to avoid a potentially unpleasant encounter. The specific interests of constituents may prevail over Executive "policy" almost by default, if the Executive scarcely tries to persuade Congress of its reasons for adopting a particular approach.

Another difficulty arises from the fact, highlighted in our essay cited previously, that many of the U.S. government actions which most affect Latin America are not "Latin American policy" decisions and actions. They are U.S. domestic or general foreign policy matters, dealt with in arenas

other than the State Department's Bureau of Inter-American Affairs (ARA) and usually without any deliberate consideration of the potential impact on Latin America. Our cases, and especially our Washington interviews, suggest that nowhere within the U.S. government is the likely impact of proposed U.S. government actions on Latin America assessed, nor is any office charged with routinely making its colleagues in the policymaking process aware of those impacts.

This problem has at least two facets. One difficulty is the U.S. government's inadequate capacity for analyzing Latin American politics and economics and for assessing the impact of U.S. actions on the region. (Treverton's study of IPC and Harry Weiner's analysis of the U.S. response to Brazil's 5th Institutional Act make this point well; it is made conclusively in Luigi Einaudi's superb case study of U.S.-Peru relations in the mid-1960's, prepared while Einaudi was at RAND.) The second difficulty is that even given a more adequate capacity for assessing the impact of U.S. actions on Latin America, the relevant judgments may not come before the appropriate decisionmakers in a timely fashion. Searching questions seldom are posed to officers in the field, nor do reports from the field gain entry into decisionmaking in Washington outside the "Latin American policy" domain.

At the risk of undue repetition, let us stress here that we think little can be done, *organizationally*, to alter the relative importance of Latin America and Latin American considerations for U.S. policymakers; indeed, we are satisfied that Latin America should *not* occupy a preferred place, in Washington's priorities, measured in terms of time or other resources. Familiar appeals for "more attention" to Latin America by top officials in Washington will fall on deaf ears because the officials are overwhelmed by more pressing claims. The exceptional occasions when such appeals are heard—on the accession of a president or of a secretary of state with substantial Latin American experience—are bound to be rare and fleeting.

Our inquiry, therefore, is not how to make Latin American policy a matter for high-level attention in Washington, but rather how to improve the capacity of U.S. foreign policymaking processes to deal effectively with the essentially routine business of inter-American relations. Can anything constructive be done about the way U.S. foreign policymaking processes affect U.S.-Latin American relations? Can anything be done that will help insure higher quality attention to this country's interests in the outcome of particular bilateral or regional issues, and/or which will minimize the cost to inter-American relationships of U.S. government decisions presently taken for reasons unrelated to regional considerations?

III

The comprehensive proposal Ernest May advances in his paper on "The American Commonwealth" attempts to deal with many of the problems we note. It is premised on several points we have emphasized: that the U.S.-Latin American relationship is "special" both because this country's impact on Latin America is so important and because many North Americans regard it as special for historic, almost axiomatic, reasons; that the relationship is no longer of enough consequence, however, to affect routinely U.S. government decisions and actions taken in other contexts; that the confluence of low salience of Latin American issues for Washington and active private U.S. interests (mainly corporations) in the region leads to a situation in which short-term and particular U.S. interests often overwhelm more diffuse, longer-term interests; and that the fragmented U.S. policymaking process, especially fragmented when dealing with the routine issues which comprise so much of inter-American relations, heightens the impact of these special interest groups and makes it more difficult to consider collective interests in alternative solutions or to avoid the sometimes needlessly adverse consequences of U.S. actions on Latin America.

May's proposal for dealing with these problems is to create a Cabinet-level secretary for Western Hemisphere Affairs, paralleled by Congressional committees on Western Hemisphere Affairs with whom the secretary would meet from time to time. The secretary, in direct charge of almost all U.S. personnel operating in Latin America and of policy instruments directly affecting the region, would assure that all branches and agencies of the U.S. government understood the likely consequences of their actions for Latin America and for U.S.-Latin American relations, and he would work assiduously to minimize U.S. behavior detrimental to hemispheric relationships. He would control and oversee a substantial career bureaucracy, one set apart from the rest of the foreign affairs establishment. The secretary would develop the staff capability to analyze the various forces within the United States and Latin America affecting a specific issue. By using such analyses, building coalitions, pinpointing and isolating opposition, and so on, the secretary would put himself in a position to widen considerably the range of discretion within which the Executive could act to resolve problems in ways which advance U.S. interests in the hemisphere.

Professor May's proposal, a more elaborate version of an idea prominently associated with Nelson Rockefeller, has the virtue of breadth and of elegant simplicity.³ It is a sweeping response to fundamen-

³Mr. Rockefeller's proposal that a "Secretary for Western

tal problems. It deserves to be considered by the Commission and by U.S. officials concerned with Latin America, especially because it highlights the central political and administrative problems in the making of U.S. policies in the hemisphere. We cannot endorse May's proposal, however. It is at best, we feel, an idea whose time has passed, one which might have made sense at a considerably earlier period in hemispheric relations, but which we cannot now recommend.

Five main reasons lead us to reject May's proposal:

1. Most Latin American nations, especially the largest, most assertive, and most important from Washington's perspective, would reject what they would regard as a paternalist distinction between the way the United States government organizes to conduct its international relations with fully sovereign states and the proposed manner of dealing with the countries of the hemisphere.

2. The creation of the proposed Cabinet post would pose a dilemma with two particularly unattractive horns. On the one hand, if Professor May's caveat—that the change would offer only necessarily marginal improvements of policies toward a mainly inconsequential region—were taken seriously, the discrepancy between very modest expectations and the trappings of Cabinet status would be incongruous; one need but try to imagine the White House announcement of the new Cabinet designee to grasp this point. If, on the other hand, the creation of a Cabinet post seemed to indicate a serious concern in Washington with regional issues, expectations would be aroused in Latin America which predictably could not be fulfilled. Indeed, one of our objections to the May proposal is that it provides a recipe for a uniquely weak Cabinet member, one bound to be overridden by his colleagues so often that the main effect (and therefore defect) of the organizational innovation might simply be to call attention to the unimportance of Latin American considerations in Washington. (Finally, though this risk is so remote it hardly bears mention, if the secretary of Western Hemisphere affairs *were*

Hemisphere Affairs" be created (a position explicitly subordinate to that of the Secretary of State but unparalleled by similar officials for other geographic regions) received its major public presentation as Chapter 4 of his 1969 Report, "The Quality of Life in the Americas." Vigorous efforts undertaken by us and by the Commission's staff on our behalf suggest that this chapter on government organization for the conduct of Latin American policy was not the subject of any of the numerous background papers and memoranda referred to in the Report's introduction. Mr. Rockefeller's staff believes that no study was done in 1969 to analyze the proposed government reorganization or to assess its likely impact, but that the Vice President based his recommendation primarily on his own wartime experience as Coordinator of Western Hemisphere Affairs.

to emerge as a powerful figure in the Cabinet, by virtue of personal qualities or connections or for whatever reason, that fact itself would probably pose the danger that global interests of the United States might be sacrificed for regional reasons.)

3. It is not at all clear to us that the case for according special consideration to the countries of this hemisphere and not to major world powers, closest allies, most important trading partners, and the like would be compelling to those countries or to their representatives and agents in this country, outside the U.S. government and within. The pressures for comparable "special" arrangements in other cases would predictably mount, with resulting confusion.

4. Our own hunch is that to separate out a Western hemisphere career service in so stark a manner as May prescribes would be to institutionalize mediocrity of personnel working in this region, while reinforcing the insularity which Latin Americanists, inside government and out, often experience already.

5. Finally and most generally, we think the May proposal would unnecessarily and artificially prolong a tendency to regard the U.S.-Latin American relationship in terms not justified by U.S. interests, nor, we suspect, by those of Latin America. We agree that U.S. relations with the countries of the hemisphere cannot be treated as if they were no different from U.S. relations with other countries elsewhere in the world, but we see nothing to be gained by highlighting and reinforcing this "special relationship," which arouses unfounded expectations and inevitable resentments on both sides. While it is doubtless true that "the inertial force of history cannot be arrested by fiat," it is not necessary to push history in the wrong direction by structuring organizational procedures designed to take Latin American policy issues out of the wider framework within which they should be approached. Special sensitivity by the United States to its hemispheric neighbors is clearly advisable, but we think this sensitivity should not be embodied in the arrangement Professor May proposes, which might actually exacerbate the problems to which U.S. diplomacy must respond. (It is hardly necessary to observe that consolidating control of U.S. activities in the hemisphere would also make it easier for available U.S. policy instruments to be coordinated in order to exert pressure on Latin American countries, in pursuit of whatever objective, laudable or not.)

Thus, we oppose Professor May's proposal. In sum, we think the costs of its adoption, both for U.S. policy toward Latin America and for the con-

duct of U.S. foreign policy in general, would substantially outweigh any benefits which might be derived.

IV

We offer no counter-proposal equal in breadth and sweep to May's recommendation. Our suggestions are more modest, even anticlimactic. But a few measures do seem to us to respond, at least in part, to the major problems we have already identified. We present our ideas in brief and tentative form, linked in each case to one of the major difficulties we perceive.

Perhaps the major problem we identify, to recapitulate, is that the set of considerations bearing on the U.S. government's policymaking process is too narrow and that it disproportionately weights some interests, especially those of private business groups with a stake in Latin America.

Four organizational proposals strike us as potentially useful responses to this problem. One mechanism, special procedures to withdraw an issue from customary treatment and to subject it instead to interdepartmental study, already exists in the formal national security review process (NSSM-NSDM system). We gather, however, that this system has atrophied somewhat, at least with respect to Latin American issues, since the President's advisor for national security affairs became his secretary of state. Our study suggests that the NSSM/NSDM process, or a similar device, should be kept alive and frequently exercised, assuring that the President is provided with systematic analysis and sharply defined alternatives, enabling him to determine key policy directions with a few decisions and without devoting continual attention to secondary issues.

A second mechanism, the more frequent use of special task forces to deal with major issues, is recommended with particular force by Edward Gonzalez. Gonzalez urges that staff members from various government agencies be detached from their agencies and assigned for two years or more to work, with consultants specially recruited from outside government as well, on the solution of specific problems.

The specific proposal which Gonzalez advances strikes us as unpromising, in part because removing decisionmaking so clearly from implementing agencies is almost certainly a recipe for eventual gaps between policy and practice. Moreover, career officials would resist being detached from their permanent agencies and put into a situation where their performance is not likely to be rewarded within their own career structures. Their superiors, in turn, would be all too likely to consider a long-

term, independent task force as an ideal pasture for ineffective staff persons.

A less formal, shorter-term version of the Gonzalez proposal might well be helpful, however. More emphasis could be given to opportunities to structure interagency groups at the working level. The groups could stay with a difficult problem until an agreed U.S. government policy were achieved; outside experts hired as short-term staff members or consultants for such exercises might provide the catalytic agent needed to help free government participants from hewing too closely to their respective departmental lines. The groups might be especially useful in instances when U.S. policy results from, or must be embodied in, a sequence of individual decisions; they might, for example, shepherd U.S. representatives in international negotiations or calibrate U.S. responses during economic disputes of one sort or another.

A third approach to the pervasive problem we have noted is to try to structure ways to assure that additional perspectives, other than those of corporations and other actors whose direct and immediate interests are currently overrepresented, are inserted effectively into the policymaking processes. Weiner's paper suggests that a special assistant to the Assistant Secretary for ARA be designated to bring to the attention of the Assistant Secretary the views of persons and groups other than those (primarily from the business community) immediately affected by an issue. This format, not far from the role played by one long-time special assistant to the Assistant Secretary, is much too likely to become an especially ineffective way to insert non-business perspectives. The special assistant's office might easily become a *cul de sac*, or even a lightning rod, deflecting communication that might otherwise reach the level of policymakers.

We are more impressed by Marie Jones' suggestions that a "non-business" council be established to parallel the Council of the Americas, whose structure and influence she analyzes. Jones argues persuasively that the existence of the Council, a visible, well-staffed permanent organization with an office in Washington, helps U.S. corporations with interests in Latin America be sure that their general views and preferences are constantly represented at various points in the Washington bureaucracy, that the dominant values and goals of U.S. corporations operating in the region are continually stressed, that particular companies or groups will find easy access to and communication with relevant officials, and that positions taken in various business-government encounters will be followed up.

Obviously, creating a "non-business" council on inter-American relations would be a more complicated task than Jones' proposal seems to suggest. Her brief treatment of the idea does not discuss sufficiently what the organizing principle of such a

council would be, how it might be created, what its composition would look like, or what its specific functions would be, nor does she make a compelling case for public funding.

Yet, we feel the idea has merit. The recent report of the Commission on United States-Latin American Relations (the "Linowitz Report") was, we believe, a valuable independent review of U.S.-Latin American relations by a diverse group of public-spirited citizens. We urge, in effect, the institutionalization of such an independent commission or council. Such a body would be composed of people interested in U.S.-Latin America relations from a variety of perspectives: business, labor, academia, media, religious groups, foundations, and other cultural groups. Its main function would be to advise the secretary of state and/or the assistant secretary for ARA. It would meet from time to time to review general and specific policy issues. As distinct from past "advisory committees" which have had no existence apart from the Executive's sporadic desire to call them into being (usually to legitimize existing policy), the proposed council would have a continuing life of its own, including a small professional staff, and would be able to issue periodic public reports on inter-American policy issues.

Exactly how the council should be composed and funded, and by whom, are tricky questions. Were the council funded by the government, with its members named by the Executive and Congress, it would possess a legitimacy and force it otherwise would lack. On the other hand, public funding would entail the risk that members might be appointed for patronage reasons because they seemed certain to advocate positions held by particular Congressmen or by the President. Public status would also probably require that council meetings and judgments be public, with rare exceptions. While that requirement would not be a serious constraint, it might prevent the council from becoming involved in sensitive issues, such as negotiations in progress with a foreign nation.

Given these difficulties, we think the council probably should be modelled, at least at first, on the "Linowitz Commission," privately funded and constituted as a private body (although both Executive and Congress might be asked, informally at least, to "nominate" members to the council). The council would acquire legitimacy through the stature of its members and from the quality of its reports and other work.

The views of the council, whether issued through public reports or as informal advice in closed meetings, would not be binding on anyone. We suggest, however, that the existence of such a visible and prestigious review group, capably staffed, would make it somewhat less likely that particular decisions taken within the U.S. government would be dominated by the concerns of a single interest

group. Diverse groups concerned with inter-American relations, including academic experts and religious groups, or even Latin American diplomats, might be encouraged to see the council as a channel for assuring that their perspectives were given expression at policymaking levels in Washington. The council's staff would work to keep the constituency of Americans concerned with hemispheric relations informed about developments in Washington and elsewhere, and would help groups beyond the business community attain the grasp of Washington's byways so obviously lacking, by Weiner's account, among those who were interested in securing a particular U.S. government response to Brazil's 5th institutional act. Also, the proposed council might serve, in time, to help the State Department (especially ARA) make its case to Congress in more persuasive and effective terms (as may happen now with the Linowitz Report's recommendations on matters like the Hickenlooper and Gonzalez amendments for instance).

Finally, one specific aspect of current organization contributes significantly to the fragmentation of policymaking. It should be remedied. We urge the removal from the Treasury Department of authority to instruct U.S. representatives in multilateral institutions (like the Inter-American Development Bank), and the transfer of responsibility for Congressional oversight of U.S. participation in these organizations to the foreign affairs committees on Capitol Hill. Lodging this authority in Treasury and in the Committees to which Treasury normally reports assumed that votes in multilateral banks were strictly "technical" decisions. That assumption, even if appropriate when the arrangement was created, no longer holds. Now, vesting responsibility in Treasury gives control over an important aspect of foreign relations to a "domestic" department not particularly sensitive to foreign policy considerations (and perhaps, conversely, all the more sensitive to the pleas of special domestic interests). We find persuasive the substantive argument for reducing the fragmentation this anomaly represents and vesting this foreign policymaking authority in State, probably in the Bureau of Economic and Business Affairs (EB). We are aware of the argument that transferring this authority might result in the drastic decline or even the end of Congressional appropriations for the multilateral banks. We believe, however, that if a more sustained examination of this problem confirms our view, it should be possible to gain Congressional approval for this change, especially if the Treasury assents. Our own soundings, while incomplete, suggest that an effort to make this change now might succeed.

The second major problem we want to address is the fact that many issues in U.S.-Latin American relations, particularly economic matters, are dealt

with in ad hoc, bilateral fashion and at a low level of attention in Washington, only to emerge as recurrent and increasingly difficult problems throughout the region. Many of the issues our project reviewed, especially the cases of countervailing duties and the disputes over IPC and fishing rights, were treated primarily as individual bilateral problems. Given that form, the U.S. interest in bilateral relations with countries like Colombia, Peru, or Ecuador rarely was, or is, sufficient to overcome the pleadings of domestic U.S. special interests. That is so even when it might well be in this country's long-term interest to frame a general approach, one which anticipates problems and provides general guidelines for resolving them, thereby diminishing the frequency of confrontation by the United States with the countries of Latin America.

What can be done? First and foremost, it should be possible to increase the relative power (and staff size and competence) of the regional political and economic offices, presumably at the expense of the country desks.

The post of Deputy Assistant Secretary (ARA) for regional economic affairs, vacant for some time and never a particularly strong position, should be filled by naming a professional economist with substantial Latin American experience and considerable political savvy, quite likely someone from outside the career foreign service. This post should be a central one in the making of U.S. policies toward Latin America, given the nature of the issues in inter-American relations: in trade, resources, investment, etc. The incumbent should be given a substantial staff and a broad mandate to involve himself in defining regional problems and seeking agreed policies to deal with them. In general, the Department of State needs more highly trained economists in a variety of offices such as the regional bureaus, the Bureau of Economic and Business Affairs, and elsewhere; this is generally true in ARA as well.

On the political side, as well, the officers charged with regional responsibilities should be given the support and the staff assistance necessary to enable them to take action by anticipating regional issues, rather than limiting themselves to keeping informed of the gamut of bilateral problems. Beefed-up regional offices, political and economic, also would assist ARA in making its case before Congress and the public and in keeping tabs on what the rest of the government was doing which intentionally or unintentionally affected Latin America.

Disputes between U.S. investors and Latin American countries are particularly thorny economic problems. Time and again they sour relations between the United States and Latin America, often to the detriment of important U.S. national interests. The U.S. government's handling of such

disputes follows a typical pattern. For some time the government remains aloof from the investment problem, as lower-level officials endeavor to keep the "lid" on, hoping that the company and Latin American country will reach agreement by themselves. If no agreement occurs, the U.S. government becomes involved, but only *after* the dispute is a serious irritant to bilateral relations. The government then continues to treat the dispute as a bilateral issue. It comes to the matter with insufficient background on the merits of the case and at a time when most creative solutions have already been precluded. Most often, as in the IPC case, the government winds up throwing its lot in with the U.S. investor, whether or not the national interest coincides with that of the investor.

Several organizational steps might enable the government to cast individual investment disputes in a larger context and to enlarge its room to maneuver. First, the recommended increase in the State Department's professional economic competence ought to make the Department (and ARA) abler and more ready to understand the merits of particular cases. If State is to become involved—or even if it is simply to face the decision of whether or not to intervene, a choice it seems certain to confront—it must know wherein it enters. In making judgments on specific cases, the government might be assisted by the advisory council mentioned previously, or by another group similarly constituted. Companies with problems might be asked to present their cases for the council's opinion. As with other judgments of the council, these would be non-binding (and given the sensibilities of Latin American countries, they probably should be private), but at a minimum the companies might be induced to be more forthcoming in the information they provide to the government and more modest in the demands they make.

Finally—and this recommendation is more substantive than organizational, though it carries procedural implications—the government should be equipped to frame and implement general policies regarding foreign investment in Latin America. The advisory council might also assist in that task. It might be determined, for example, that equity investments made in natural resource extraction, especially those made on certain kinds of terms, were sure to lead to later conflicts. Investors contemplating such investments might be denied government guarantees or insurance, or, at a minimum, they would be put on notice that the government regarded their ventures as contrary to the national interest and would not feel compelled to support them in any subsequent conflicts with the host government.

The third major problem we think can be partially dealt with in organizational terms is the ten-

dency to ignore the impacts on Latin America of U.S. actions at the time the actions are being considered.

This problem is composed, in turn, of two sub-problems: a) the impact of U.S. actions on Latin American relations often may not be well understood, even within the range of issues to which the State Department and the CIA are normally attentive; and b) much (perhaps most) of the U.S. impact on Latin America results from actions taken outside the arena of "Latin American policy," and these actions and their effects are often overlooked in considering inter-American relations.

The first sub-problem, flawed reporting and assessment, is not a deficiency limited to the making of Latin American policy of course, and it probably makes no sense to address it primarily on a regional basis. Although we will leave the problem of improving the quality of political reporting and assessment to others asked by the Commission to analyze this issue specifically, we cannot resist making one relevant observation. Our research suggests that dialogue between U.S. policymakers and the best academic and other non-government specialists working on Latin America is infrequent and unproductive, and that this problem is considerably worse with regard to the relations between government officials and experts working on Latin America than with those working on other geographic regions.

Although the foregoing comment is obviously subjective, possibly parochial, and perhaps even self-serving, we think it is true. Our sense is that some of the most fruitful analyses of contemporary Latin American politics are being done by academic specialists (people like Guillermo O'Donnell, Philippe Schmitter, Peter Smith, Alfred Stepan, and Wayne Cornelius, for instance), and that this work usually comes to the attention of foreign service officers and other relevant U.S. officials only long after it is published, if at all. Little ongoing communication exists between these first-rate specialists and the political officers who might benefit from their insights. The exceptions to this statement generally result from special circumstances; for example, the insertion into the State Department of an academically-oriented Latin American specialist inevitably brings a few of his acquaintances into closer range.

It is not that there is *no* dialogue between the government and Latin Americanists: the Department's Bureau of Intelligence and Research (INR) has long had contact with a number of Latin Americanists, and has contracted for considerable research by academic specialists. However, it seems to us, first, that the academic specialists INR has dealt with are, generally speaking, not the most distinguished in their fields, and second, that their

analyses, however useful, are mainly pigeon-holed in the research and intelligence bureaucracy and, therefore, do not directly affect the quality of political assessment by officers with operational responsibilities in the field and in Washington.

If our perception is accurate, it no doubt stems from a variety of causes, many of which may have more to do with the preferences and prejudices of academic specialists on Latin America than of government officials. We think it worthwhile, however, to consider procedures which might improve the input of non-government specialists into governmental political assessment. It might be possible, for instance, to make much more creative use of the Foreign Service Institute, involving not only its existing programs in Washington, but also designing continuing reading programs for FSOs in the field. It might be possible, perhaps using the existing USIA program, to present public lectures under university sponsorship, and, thereby, informally to develop improved communication with academic specialists. It might be possible to engage non-government specialists to write unclassified reports on questions of mutual interest to the government and to outside specialists, particularly if the outsider can gain access, under appropriate conditions, to extensive data otherwise unavailable to him. And it may be possible, in exceptional but not unique cases, to attract outside specialists to do a stint within government as political officers in the field, as country desk officers in State, in special staff posts, or as short-term consultants. Such appointments would have benefits to both parties extending well beyond the accomplishment of the immediate task at hand.

The second sub-problem, that the effects of non-"Latin American policy" actions on Latin America are often not perceived, is obviously one not easily corrected, for it is inherent in the nature of U.S.-Latin American relations.

It would do little good, we think, for the secretary of state or the president to issue a directive instructing departments contemplating any action which might affect Latin America to clear it with the assistant secretary for ARA. That suggestion is deficient on two counts. First, a good part of the problem is that people do not think of Latin America when considering action in other domains; there is no reason to think that a mere directive would enable them to do better. Second, and more important, to make his putative authority effective, the assistant secretary for ARA would need to be backed up by the secretary of state more often than he could ask for support, and often on issues for which State's position vis-a-vis other Cabinet departments is likely to be weak.

One way of starting to approach this problem might be for the assistant secretary for ARA to

designate a special assistant to look out for the potential impact on Latin America of whatever other departments and branches of government, including the Congress and even the courts, are doing. A person with this task as his main responsibility, backed up perhaps by a presidential directive instructing all the executive departments to make information on potential impacts on Latin America available to ARA and drawing on the staffs of the regional offices (political and economic) within ARA, might markedly improve the peripheral vision of the assistant secretary for ARA and help him to prevent needless damage to Latin American and to inter-American relationships.

Two related suggestions concerning Congress might also be helpful. As Robert Pastor suggests, it would be helpful if the Congress would at least cross-refer to the foreign affairs committees those trade and other bills likely to have an impact on Latin America. If the staff and technical capabilities of those committees were bolstered, the more extreme Bolling proposal, transferring jurisdiction over most foreign economic matters to the foreign affairs committees, would be attractive, however slight its chances of implementation seem at present. It would also be helpful, we gather, if the access for members of Congress and their staffs to classified material on foreign relations were facilitated. Even those few in Congress who do care about the impact of U.S. actions on Latin America and other regions must now spend considerable time and effort just informing themselves, not always successfully, about what the Executive agencies are doing. That situation should be remedied.

A final set of problems identified in our cases and conversations regards relations between the Department of State, particularly ARA, and Congress. In many of the cases examined by members of our group, the actions or influence of Congress led to unhappy outcomes. That was so in the IPC case when passage of the foreign assistance act was (seen as) linked to firm State Department action on behalf of foreign investors threatened with expropriation; in the fisheries dispute with Ecuador which the passage of HR 7117 only rendered less tractable; or in the countervailing duties cases, when the trade bill was held "hostage" by Congress and the imposition of countervailing duties was viewed by Treasury as partial ransom. Congressional action, or the threat of such action as perceived (and perhaps magnified) by the State Department, caused damage to long-term U.S. relations with Latin America.

In many cases, that damage was probably needless. The action could perhaps have been prevented, or the threat of action reduced, had State and ARA made strong cases based on *their* considerations: foreign politics and policy. Several times in our interviews, Congressmen suggested that they

feel compelled to argue the brief for the particular interests of their constituents but are satisfied to relent *provided* they are confronted with good arguments for doing so. Their function is representation; it alone may suffice. Pastor's paper on the sugar act provides confirmatory evidence: Congressmen report that when the State Department takes a firm position, State's view is powerful because the Department so seldom goes to Capitol Hill. The Department is often flaccid at defending its positions once battles are joined; even more seldom does it anticipate and act to diminish disagreements between the Executive and Congress over issues of foreign policy.

Pastor's paper presents a strategy for improving the performance by the State Department of its advocacy function before Congress. There is much to commend in the strategy Pastor recommends, which is based largely on buttressing and up-grading the work of the Department's Congressional liaison office, (H). We think this strategy is fundamentally misdirected, however. The real task is to structure incentives for the entire State Department to play a more vigorous role vis-a-vis Congress. A strengthened H might be able to perform some functions which at present badly need to be done, for instance, looking ahead to anticipate areas of potential conflict between the Executive and Congress before either side becomes wedded to public positions, and those arguments justify adoption of many of Pastor's proposals. But making H a truly significant operation seems implausible, given current career incentives within the Department. And even were it successful, strengthening H might increase the unfortunate tendency of the Department's line officers to regard Congress as someone else's business, to be safely ignored.

The measures called for, like many other changes we have suggested in U.S. policymaking toward Latin America, require alterations in attitude, less shifts in formal procedure than in informal habits of conducting day-to-day operations. The officers with operating responsibilities, especially in the regional bureaus, need to devote more of their attention to making Congressmen aware of the foreign policy implications of contemplated actions (as the officers need to spend more time tending their relations with other Executive Branch departments).

Of course, shortcomings in relations between State and Congress are not unilateral. If careerists in the Department often regard Congress as an illegitimate participant in the making of foreign policy, their colleagues on Capitol Hill are prone to dismiss the considerations represented by State as arcane and marginal to the "serious" business of domestic politics. The problems are inherent in the intersection (or overlap) of domestic politics with foreign policy under the U.S. system. But these

difficulties bear with particular force on policymaking toward Latin America because of the large impact Congress has on matters affecting Latin America, relative to its role in the formulation of policy toward other regions.

Several measures might represent beginnings toward breaking down the isolation of the two branches, at least facilitating a more creative State (and ARA) role in its relations with Congress. The establishment of a special assistant to the assistant secretary (ARA) in charge of "impact statements," mentioned earlier, should increase the sensitivity of the bureau's senior officials to Congressional deliberations and broaden the range of Congressional actions to which those officials attend. Beyond that, it should be possible to arrange mechanisms for regular consultation between senior advisors to the secretary of state and senior Congressional staffers. Those arrangements might be combined with similar procedures for the various geographic regions (assuming that no general reorganization of the Department took pre-eminence away from the regional bureaus), bringing together senior officials from the bureaus, including ARA, and staffers associated with the relevant Congressional subcommittees. Both levels of contact occur at present, but too seldom and usually *after* a conflict has arisen.

Over the longer term, exchanges of personnel between the two branches could play an important part in making each more aware of the perspectives of the other. The exchanges, of up to perhaps a year in duration, might involve officials at many levels, including those quite senior. For example, a country director and a senior subcommittee staff officer might switch jobs for a while. Of course these arrangements, like those currently in effect, would confront the incentives attached to career patterns in both branches. In the State Department, especially, tours of duty in other agencies generally are viewed, at best, as detours en route to the summits of officialdom. It would be difficult to structure such exchanges properly, therefore, but the effort seems to us worth making.

V

We have posed our recommendations in tentative form, reflecting not only academic caution but also our understanding of the division of labor between Commission-sponsored research and the deliberations of the Commission itself. That does not mean, however, that we regard all of our recommendations only as topics for further study. There seem to us good reasons for implementing several of the suggestions and no strong arguments to the contrary. Among these we would include: beefing up the capability of ARA to handle regional issues, particularly economic ones; appointing a special assistant to the assistant secretary (ARA) to assess the impacts of U.S. actions on Latin America; and establishing mechanisms for improved consultation between State and Congress. Creating an advisory panel or shifting responsibility for instructing U.S. delegates to multilateral banks would probably be more difficult to accomplish but could well have more effect on policy outcomes.

Finally, lest qualifications overwhelm recommendations, it should be clear that though we regard the exercise of framing and implementing alterations in the policymaking process in a sense as marginal, we by no means regard it as trivial. The kinds of changes we suggest operate at the margin of difference most accessible to those, like ourselves, who want to change the pattern of United States policy in Latin America. And this margin may be of critical importance to the Latin American countries themselves, given the sensitivity of their economies and societies to actions taken, or not taken, by the United States. Attention to improving the process of policymaking toward Latin America, together with more fundamental revisions of attitudes and assumptions about inter-American relations, could lead to significant improvements in United States-Latin American relations.

Appendix J: Foreign Economic Policy

Introduction

Appendix J contains four papers prepared for the use of the Commission on selected aspects of the conduct of economic policy with international impact. The first of these papers, by Kenneth W. Dam, considers the adequacy of current governmental economic intelligence and analysis. The next two, by Mortimer D. Goldstein and Sidney Weintraub, are directed to the problem of providing the necessary personnel; the fourth, by Stephen D. Cohen, deals with economic coordinating machinery. Related papers appear in Appendices H, I, P, and U.

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Economic Intelligence and Analysis

Kenneth W. Dam
January 1975

SUMMARY

I. Economic intelligence has grown in importance over the past five years.

II. The consumer is not interested in the sources of economic information and therefore analysis must be based on facts derived from both intelligence and other sources.

III. Competition in analysis is desirable, and its costs are slight. The need to protect sensitive intelligence sources may on occasion limit the effectiveness of this competition between intelligence and other agencies.

IV. White House consumers often mistrust departmental analysis, but they appreciate the objectivity and responsiveness of the intelligence community and the quality of its work.

V. The central organizational question is whether the economic analytical resources of the CIA should be retained or whether their function should be transferred elsewhere. Five options for locating these resources, if transfer is favored, are (1) a new intelligence community organ; (2) a new agency outside the intelligence community; (3) a quasi-governmental think-tank; (4) an existing department; and (5) some other existing agency, such as the Federal Reserve Board. The conclusion reached is that none of these five options is superior to the present organization. Nevertheless, it would be desirable to create an analytical think-tank and to strengthen existing analytical staffs while retaining the CIA economic staff.

VI. The consumer has a vital role in economic intelligence and analysis. A committee of consumers for discharging that role should be maintained.

VII. Economic issues are different from national security issues and hence different working methods are appropriate and could improve the quality of analysis. In particular, more interchange between analysts in the intelligence and other agencies would be highly desirable. Several other recommendations are offered in the text.

I. The Growing Importance of Economic Intelligence.

Economic intelligence has grown in importance over the last five years. This growth is not a fad. It derives from the change in the nature of the policy issues of central concern to the President and his principal advisors.

Until five years ago foreign economic policy provided a relatively known environment against which primary national security issues could be addressed. Economics was, in the foreign sphere, a constant against which the important political and military variables could be studied. Consequently, despite important trade and aid issues, economic intelligence was mainly concerned with the Soviet and Chinese economies and was a handmaiden of national security intelligence.

Today the nation's agenda of foreign issues is different. Foreign economic policy has reached center stage. There are few constants in foreign policy, least of all the economic questions where we confront a set of issues hardly imaginable five years ago. Beginning in 1971 the monetary rules changed, and international negotiations on exchange rates, exchange market intervention and the like became important to the United States and of direct concern to the President. Today these monetary issues find an entirely new framework characterized by what is called the petrodollar problem. The forthcoming trade negotiations, while not more important than the Kennedy Round, are nonetheless more likely to be entangled in political matters. And overshadowing more traditional economic concerns for the past year has been the question of access to resources. The oil problem is in the forefront, but we cannot be certain that we will not face similar challenges in other raw materials.

These newer problems have vastly broadened the number of countries with which economic intelligence must be concerned. For example, an effort to understand the policies and intentions of the major

Arab oil producers is vital. And to the extent that economic intelligence must be focused upon intentions, and not merely upon capabilities, economic intelligence must enter a sphere of inquiry where intelligence analysts have been traditionally cautious in the security and military fields.

Not only have the past five years brought economic issues to the fore, but the difficulties of economic intelligence analysis have been compounded by the interconnections between economic, political, and military questions. The Middle East oil producers provide an example. An attempt to understand the present, much less prepare for future contingencies, purely through economic analysis would obviously be useless. Political considerations shape many Arab economic measures. The military buildup financed with foreign exchange earnings from oil is a powerful factor in estimating future behavior. These political and military factors grow out of the complex history of the Middle Eastern peoples and cannot be understood by economic analysts working alone.

II. Economic Information vs. Economic Intelligence.

Although this paper is concerned with economic intelligence, that topic cannot be properly addressed without recognizing one central fact: the consumer is interested in information, not intelligence as such. Except as a matter of occasional curiosity, the consumer has no interest in the *source* of information. It makes no difference to him whether the source of a fact is a publication, diplomatic reporting, or intelligence operations. What he does need is the facts, the analysis, and the understanding of problems or events that will often require a blend of all three kinds of information.

The fact that information derived from intelligence sources can often make a major contribution to an overall understanding of a problem or event must condition attitudes toward the comparative advantage of various agencies in analysis. Because of the experience required to evaluate an isolated piece of information derived from intelligence sources, there may be occasions when the blending job is best done by the CIA. How often this will be the case is impossible to say. But one cannot be certain that an organizational solution which involved using the intelligence community solely for intelligence collection and daily intelligence production, leaving to other agencies of government the analytical job, might not result in an inferior product in some areas. The risk of such a result would be highest where economic and security issues intertwine, as they do for example in oil questions.

III. The Importance of Competition.

Perhaps the greatest organizational shortcoming in the intelligence community is the failure to appreciate the value of competition in analysis. No doubt intelligence collection must be highly organized, and competition in collection is wasteful, if not in fact dangerous. But the analytical task is an intellectual task. A monopoly in anyone's hands of an analytical task leads to mediocrity.

But just as there is no reason to give the intelligence community, or any part of it, a monopoly over particular analytical tasks, so too competition from the analytical resources of the intelligence community is a good thing for the other agencies of government. To take a single example, analysis by the CIA of foreign agricultural conditions, particularly in the Soviet Union, stimulated the Department of Agriculture to do a better job during the period when export controls were a central policy issue in 1973.

A central recommendation must therefore be to avoid the normal tendency in discussions of government organization. That tendency is to decide what group is best equipped to do a particular task and then to assign that task to that group alone. Where analysis of economic conditions and events is concerned, we want as many groups to be engaged as can make a contribution exceeding the costs of the analytical resources involved.

Analysis is inexpensive, and hence the costs of competition are slight. Within the intelligence community, outlays for collection dwarf those for analysis. Within the departments, analytical staffs, though growing, are still modest in size. We have not yet reached the point where we need to worry about wasting money on analysis.

In the preceding section I suggested that because of its superior ability to evaluate isolated facts derived from intelligence sources, the intelligence community might have a comparative advantage for certain analytical tasks. The way to find out how important that comparative advantage is would be to encourage competition in analysis of particular problems between the intelligence community and other Government agencies.

Nevertheless, the problem of compromising intelligence sources limits the effectiveness of this competition where sensitive intelligence sources are involved. The intelligence community will be understandably reluctant to take any chances by transmitting raw, unevaluated intelligence to other agencies. This is a particular problem because the analytical staffs of the domestic agencies (such as Treasury, Commerce, Agriculture, etc.) have little sensitivity to intelligence problems and may not always carefully follow procedures for safeguarding intelligence information. Nor should analysts for

those agencies be chosen on the basis of their experience with intelligence matters; analytical talents are too scarce to try to make analysts for domestic agencies junior intelligence officers. The consequence is that one must live with the fact that some kinds of relevant facts will not be available to the domestic agencies in the preparation of their analytical work. But imperfect competition is better than no competition at all. And the amount of this withholding of facts can be kept to a minor, and probably insignificant, amount by improved liaison procedures between the domestic agencies and the intelligence community. The development within the past two years of the intelligence staff within the Treasury may point the way to the solution of these kinds of problems.

IV. Analysis for the Executive Office of the President.

If competition is desirable, it will nonetheless be true that each agency will tend to rely most heavily on its own analysts. But there is one part of the Government that does not have its own analytical staff and that for reasons to be discussed later probably should not have its own analytical staff. That is the Executive Office of the President, including the Council on International Economic Policy (CIEP), the Office of the Special Representative for Trade Negotiations (STR), the National Security Council (NSC), and, on some issues, the Office of Management and Budget (OMB). (These Executive Office agencies will be collectively referred to hereafter as the White House.)

White House officials tend to distrust departmental analyses. They have learned through experience that such analyses tend to support the policy positions of the department. Since any international economic issue that is likely to command the ongoing interest of the White House will involve a difference of policy view among a number of departments, this distrust is serious.

In some cases the distrust is quite justified. Examples of slanted analysis, consciously calculated to support a departmental position, may be rare (though one can never be sure how rare). It is more likely that departmental analysis that conflicts with departmental policy will not reach the White House. But by far the most common factor engendering this distrust of departmental analysis is that the long-standing interests and concerns of a particular department will automatically shape the design of a research effort and the inputs to it.

White House officials consequently tend to place high value on analysis coming from the intelligence community. To them it has an objectivity that they do not expect from the departments. True objec-

tivity is no doubt intellectually impossible, and hence it may often be that White House officials simply fail to perceive the unarticulated assumptions and the predispositions underlying the product of the intelligence community (perhaps because that product is not accompanied by policy recommendations). Nonetheless, the intelligence community's work does enjoy a reputation for objectivity that means it will be read by White House officials when departmental studies will not be. In these circumstances any organizational change that had the effect of reducing the flow of analysis from the intelligence community to the White House would be a self-inflicted wound that could not be compensated for by the expansion of departmental analytical capacities.

Paralleling the reputation for objectivity is the responsiveness of the intelligence community to White House requests for information and analysis. Because White House interest is usually tied to impending policy decisions and since such decisions usually involve differences of opinion among at least two departments, the White House may not be able to rely upon one of the contending departments for prompt work on specific points. It is an unfortunate reality that in the struggle for control of policy, departments are wont to use control of information as a tool. Hence, the responsiveness of the intelligence community to requests for specific pieces of analytical work is highly valued.

Aside from objectivity and responsiveness, the quality of CIA analytical work is also valued by White House consumers. It is well known that the staff of economists in the CIA is at least equal to the staff of any of the departments.

V. The Location of the Government's Analytical Resources.

Where should the resources for the interpretation of economic intelligence and other economic information be located within the Government? Thus far three propositions have been set forth that bear on this question. The first, which is largely implicit, is that every policy department will want its own analytical staffs and this desire should be supported, not resisted. The second is that competition is a good thing in economic analysis as in economic activity. Analysis is cheap compared to intelligence collection and most other relevant variables, such as statistics collections. Attempts to allocate analytical jobs from the top of Government are counterproductive. The third proposition is that the White House often mistrusts, partly for good reason, the analytical work of the policy agencies.

If these three propositions are accepted, then the

organizational question becomes largely whether the economic analytical resources of the CIA should be retained (or indeed expanded) or, on the other hand, whether this function should be transferred to some new or existing institution.

The grounds for retaining the CIA staff are compelling. In the first place the staff exists. And it is of high quality. Institutions are not built in a day. Just as one cannot build a great university or research institute from scratch in a few years, so too one cannot be sure that a new governmental analytical organization could be created that would be the equal of the CIA's economic staff. The organizational planner's penchant for moving boxes around may produce results when one seeks better coordination or better policy implementation but is downright dangerous when one is dealing with intellectual tasks.

If the decision is nevertheless made to shift the analytical responsibility from the CIA (either as a result of a judgment on the merits of the question or as part of a major restructuring of the intelligence community resulting from the current public debate over the CIA), then a number of possibilities present themselves. First, a new intelligence community organ could be created, separate and distinct from agencies with a collection responsibility. Second, a new analytical agency outside the intelligence community could be created. Third, as a variant of the second, a quasi-governmental think-tank could be created for long-term analytical efforts, leaving day-to-day fact collection and intelligence production to existing agencies. Fourth, an existing department could be tasked with the job of providing analytical support for the Government in general and the White House in particular. The prime candidates for such a function would appear to be the State and Treasury Departments. Fifth, some other agency could be chosen for the analytical task. The Federal Reserve Board, with its extensive economic staff and legal independence, would be the major candidate. In the rest of this section of the paper, these five alternatives will be evaluated.

1. *A New Intelligence Community Organ.* Should a new intelligence community organ, separate and distinct from collection agencies, be created to replace the CIA economic staff? An argument could be made that such a "separation of powers" within the intelligence community would be desirable. It might be thought that such a separation would help to safeguard the citizen's liberties by diffusing the power of the intelligence community. Or it might be thought that such a separation would prevent the collectors from dominating the analysts.

On reflection, such an organizational change would be undesirable. In the first place, the intelligence community is already too fragmented. To separate analysts from collectors further would be

to accentuate the regrettable tendency to make collection an end in itself. If collection is to be relevant and cost-effective, feedback from analysts to collectors should be strengthened, not weakened. And in the second place, the destruction of an existing, first-class analytical staff within the CIA in order to create a new institution does not seem wise. The result would likely be a move toward mediocrity. Of course, as would probably be the result in fact, the CIA staff could simply be moved en masse to a new organization. But if all that is involved is this kind of box-shuffling, it is difficult to see what would be accomplished. Career patterns would be distorted, and it is not clear that recruitment of new talent would be improved. One may conclude that this first option has little to commend it.

2. *A New Analytical Agency.* The second option differs from the first insofar as the new analytical agency would be outside the intelligence community. Presumably the major additional advantage would be that the new agency would be more open to the public, less parochial, and perhaps more able to recruit talent, particularly in-and-out experts from universities and from business. The location of such an agency within the Government would naturally be a question. The principal consumers would probably be within the Executive Office of the President, and hence the Executive Office would be a natural candidate for housing such an institution. An objection would naturally be raised that the Executive Office is too large, and such a new institution would tend to diminish the importance of the departments in economic policy making. A more weighty disadvantage is the one already mentioned in connection with the first option—namely, that it would be difficult to create a first-class new analytical shop from scratch. Meanwhile, the existing resources of the CIA would be dissipated.

3. *A New Think-Tank.* A variant of the second option is to create the new agency in a quasi-governmental institution. The Rand Corporation is a prototype that will convey to most people what would be involved. Such a think-tank would necessarily be involved in long-range, "big picture" analysis. Indeed, that would be its strength. A certain distance from the pressures of day-to-day issues may lead to greater objectivity and thoroughness in analysis. Moreover, such a think-tank could perhaps use experts from outside the government more effectively than could governmental agencies, particularly intelligence agencies. On the other hand, it is not clear that one can successfully separate the long-term analytical job from the day-to-day analytical job. In any case, top-level consumers will be primarily interested in short, specific pieces of analysis that are hand-tailored to immediate policy issues. The objectivity of the CIA could be du-

plicated in a think-tank, but not the responsiveness to policy officials. The work of such a think-tank might provide important background studies and certainly would be helpful to analysts doing the short-term, more directed analytical jobs. But such a think-tank could not effectively replace the CIA economic staff, even assuming a staff of equal competence could be assembled. Moreover, such a think-tank staff would have a harder time obtaining access to sensitive information collected by the intelligence community than would a regular governmental institution. The conclusion one is driven to is that a think-tank for international economic analysis would be a useful institution to supplement existing capabilities but that it could not substitute for analytical work within the Government.

4. *Tasking an Existing Department.* The analytical work of the CIA could be taken over by an existing department. Most people would place this responsibility within the State Department. Those who view foreign economic policy as more a branch of economic policy than of foreign policy would no doubt resist such a transfer and would be more likely to choose another department, probably the Treasury. However one resolved that issue, it is unlikely that White House consumers would be satisfied with either alternative. The very reasons why they mistrust departmental analysis and appreciate the responsiveness of the CIA today would lead them to be unsatisfied with this option. In short, a major improvement of State and Treasury analytical capacities would be highly desirable but would not substitute for the advantages of the CIA economic analytical staff.

5. *Reliance on the Federal Reserve Board.* An answer to the argument against location of the economic analytical function in State or Treasury might be found in selection of another agency which did not have major policy responsibilities. The Federal Reserve Board would be the natural candidate. It already has an excellent, and some would say underutilized, economic staff. The Fed has independence, both by statute and by the temperament of its staff.

Although greater use of the Fed's staff would no doubt be desirable, there are several considerations that give one pause. In the first place, it is not quite true that the Fed does not have policy responsibilities. Although the Fed subordinates itself to the Treasury (and to State) when international negotiations are involved, it has operational responsibilities in international monetary markets and maintains close relations with foreign central banks. Its top officials have strong policy views extending to the full range of economic policy issues. Its Chairman is a major protagonist in economic policy debates, both in public discussion and within the Executive Branch. Therefore, although the Fed is

independent from the Executive Branch and from the White House, it might nevertheless fail to achieve a reputation for objectivity where policy decisions turned on analysis. Moreover, its very independence could make it less responsive to the day-to-day needs of White House consumers. And there is the same question raised above as to whether the Fed staff could achieve ready access to intelligence derived from sensitive sources. Finally, it must be recognized that the Fed's staff would have to be considerably broadened, if not necessarily expanded, if it were to take on such a task. Its economic analytical capacities are directed toward financial questions, and it would no doubt have to recruit the area specialists, political analysts and other non-financial experts who are now an integral part of the CIA's analytical team.

6. *Conclusion.* By way of general conclusion, one can therefore say that each of the options would have certain advantages. But none could necessarily provide an adequate substitute for what we already have. Moreover, these advantages that would flow from upgrading the quality of analytical resources throughout the Government can and should be achieved independently of what happens to the CIA. Again, competition in analysis is a principle that could improve policy decisions. The better each of the analytical staffs is, the more effective will be this competition.

VI. The Consumer Role in Economic Intelligence and Analysis.

Over the past few years the role of the consumer—policy officials who rely on economic intelligence—has gained increasing attention within the Government. So far as departmental analysis is concerned, each department is best able to solve its own organizational problems. The problems faced by INR within the State Department are quite different from those faced by OASIA within the Treasury Department. Generalization is not only difficult but probably not worth the effort here.

The relation of the consumer, particularly the White House consumer, to the intelligence community is a more important question for present purposes. This relation is crucial because economic intelligence is not an end in itself. But the intelligence community is so large and its procedures so specialized that it is quite capable of grinding out a product that no one reads. Without feedback from consumers about the trend of policy interests, the priority of analytical tasks, and the format of publications, the intelligence community cannot do an effective, responsive job.

One solution to this problem was the creation

several years ago of the Requirements Advisory Board, a group composed of economic intelligence consumers within the White House, State, Treasury, and Commerce. These consumers, who were just below the top level of policy officials, were chosen for their closeness to the concerns of Cabinet-level officials and their familiarity with the intelligence community. The RAB's significance lay more in the availability of the individuals who composed the Board than in the Board as a collegial body. The Board, as a group, was available for advice on requirements and on priorities, but it was recognized that in the end only intelligence community professionals could draft requirements.

But the existence of a group of relatively high-level consumers who were sensitive to the problems of the intelligence community and who made themselves available for individual consultation was the chief benefit of the RAB. These individual consultations were the primary means by which the all-important feedback to the community on the relevance and utility of its product occurred. It was also the mechanism by which the intelligence community gained early warning as to changes in the direction of top-level economic policy concerns.

Such an intimate relation between consumers and the intelligence community must be constantly recreated, particularly as new officials replace their predecessors, and the RAB is in fact being transmuted into a new organization. But this kind of consumer-producer relationship is crucial to the improvement of economic intelligence, even though it cannot be created by purely organizational measures. For present purposes it is sufficient to recommend that a committee of consumers be maintained to advise the intelligence community on economic intelligence.

VII. Improvements in the Quality of Analysis.

Because of the relative novelty of the interest in economic intelligence analysis, it is perhaps inevitable that habits carried over from the national security sphere should dominate the way in which the intelligence community operates. The penchant for secrecy on the part of that community, coupled with the jealousy of the domestic departments, has tended to prevent a free interchange of information and analytical product between these two spheres of the government. Both have suffered in the process.

The fact is that for most questions information derived from intelligence sources is only a small, however important, part of the body of information from which analytical conclusions must be drawn.

In these circumstances there is no reason why CIA and departmental analysts should not freely share their research papers and meet regularly to discuss their methodology, their information, and their conclusions. Competition does not imply separateness. On the contrary, just as openness among scientists leads to scientific progress, so openness among analysts improves the quality of everyone's product.

The degree of openness achieved is partly a question of temperament but it is also shaped by departmental and CIA policies. It was not so long ago that some departments refused to make their analytical papers available to the CIA. And the clearance procedure has been known to place unwarranted restrictions on the circulation of CIA publications to departments other than the State Department.

Beyond this freer interchange of work product, some changes in the style of intelligence community papers would improve the comprehensibility and usefulness of that product to policy officials. For example, dissenting views should not be suppressed. If there are two views on a matter among analysts, that very fact is extremely important for policy officials. In military matters it may be essential to have a single agreed view of the military capabilities of a particular country, but economic policy is a different matter. An analysis produced by a committee that papered over its differences to achieve a compromise view is much less useful than a clear expression of two opposed views of a controversial subject. For the same reason, it is frequently useful to allow analysts to make heretical views known to policy officials, so long as the policy officials also know what the majority view is.

However useful a sense of the difference of analytical views may be to policy officials, it is crucial to exchanges between analysts in different agencies. For this reason one of the most welcome innovations is the growing practice of identifying the analyst for the reader so that he can, by picking up the telephone, start a dialogue with the analyst.

Other techniques to improve the quality of interchange can be borrowed from the scientific and university worlds. For example, the use of quantitative methods in Government economic analysis has lagged well behind the private sector. The use of workshops involving quantitative analysts from different agencies may provide a method for improvement. Similarly, exchange and publication of papers on methodology (which is a hallmark of the scholarly world) could improve the quality of analysis within the intelligence community.

Finally, more attention needs to be paid to institutional matters in economic intelligence analysis. Within the national security sphere, the dogma has

long been that intelligence should be concerned with capabilities, not intentions, because intentions are essentially undiscoverable. Whatever the utility of that dogma for national security questions, it has little meaning for economic matters. In monetary, trade and resource matters policy officials need to know the intentions of their counterparts in other governments. By learning as much about other governments as the informed journalist knows about the U.S. government, analysts can improve the understanding of policy officials of the views and predispositions of particular agencies and even individuals within foreign governments. It is not enough for a policy official engaged in active negotiations to be told what "Paris thinks" or what the Saudi Arabian position is on a particular issue. Those governments are as complex as our own, and it is the job of analysis to break open that complexity for the benefit of our own policy officials and negotiators.

VIII. Conclusion.

This paper has not been concerned with economic intelligence collection. Rather the attention has been focused on the analytical product. Although a number of options for organizational change were discussed, none appears *prima facie* preferable to the present organization. Indeed, any change which involved elimination of the CIA's function would run a major risk of dissipating a valuable resource without guaranteeing the development of resources of competing quality.

The road to improved analysis rather lies in closer ties to the consumer of economic intelligence, to greater competition and interchange between analytical staffs, and in an adaptation of the nature of the working methods and of the product of the intelligence community to the special nature of economic issues.

Personnel For U.S. Economic Activities Overseas

Mortimer D. Goldstein
February 1975

SUMMARY

1. In the political sector, the overseas execution of U.S. foreign policy is virtually the exclusive responsibility of the Secretary of State and the Foreign Service; in the economic sector, however, their responsibility has long been shared with a number of departments, notably Agriculture, Commerce, and Treasury.

2. There are a number of reasons why the execution of foreign economic policy has not been left entirely in the hands of the Foreign Service and why there have been recurring attempts to reduce its economic role further. The reasons: lack of confidence in the depth of its economic competence; the argument that it has an inherent bias that leads it to give undue weight to political as against economic factors; the desire to use experience overseas as a means of strengthening the skill of an agency's staff for home service in the foreign affairs field, of giving the agency more leverage in the Washington bureaucracy, and of providing a trusted channel for direct dealing between Washington and foreign officials; and empire-building.

3. On the basis of a 1954 statute, Agriculture has established the Foreign Agricultural Service that has about 100 Civil Service (GS) officers overseas, attached to about 53 posts for regular tours of duty. FAS officers engage in a variety of activities in the agricultural field as part of the embassy economic section; their duties can involve the basic foreign relations functions of reporting, representation, negotiation, and policy advice. There is no State-Agriculture exchange program. Agriculture assigns FAS officers to permanent U.S. missions to certain international organizations. It participates with other agencies in a number of international economic conferences; it provides the leadership and funds for U.S. representation in a large number of technical agricultural conferences and meetings abroad.

4. The Treasury has several hundred Civil Ser-

vice (GS) employees abroad, but most of them perform operational functions for Customs and IRS that are basically overseas extensions of domestic programs and are only marginally part of the foreign relations process. However, the financial attaches and assistant attaches from Treasury/OASIA, though fewer than 20, are an important part of the 13 major posts to which they are assigned. They become involved not only in the financial aspects of the whole foreign relations process but also in other important economic activities of the embassy. They also serve as intermediaries in Treasury contacts with senior financial officials abroad. There is no formal State-Treasury exchange program, but nine Foreign Service officers are now working in Treasury. The Treasury has a notably important role in multilateral economic relations, both in permanent representation to international financial institutions (where it has primary control under the Bretton Woods Agreements Act) and in international conferences.

5. Commerce, which lost its overseas service in 1939, has a broad spectrum of interests in the activities of the overseas establishment, ranging from (i) export assistance and promotion and investment assistance to (ii) economic trends and governmental commercial and economic policy abroad, and the negotiation of commercial issues. The first category represents, by and large, operational activities not a part of the normal foreign relations process. Commerce assigns Civil Service employees, with GS ratings, to deputy director positions in 13 U.S. Trade Centers. It also maintains a formal State-Commerce exchange program, now being renegotiated, under which about 30 Commerce officers currently serve tours of duty in commercial positions in U.S. embassies as Foreign Service Reserve officers, and a like number of Foreign Service officers serve in the Commerce Department. Commerce participates along with other agencies in U.S. representation in multilateral economic activities. On a number of occasions, Com-

merce has sought to take over the commercial, or both the economic and commercial, activities of State and the Foreign Service and establish its own commercial service overseas. These efforts, though not successful, have resulted in augmenting the role and influence of Commerce in the personnel management functions of the Foreign Service.

6. In the period after World War II compared with the pre-war period, international economic problems have grown greatly in importance, multilateral diplomacy has supplanted bilateral diplomacy to a considerable degree, and direct negotiations by Washington officials have significantly replaced negotiations by U.S. embassies. These factors have changed the demands on the Foreign Service, particularly as regards its competence in professional economics and its knowledge of domestic economic problems and policies and their connection with the world's economy and institutions.

7. It is clear that the Foreign Service has made great progress in meeting the new demands on it, though its skills are short of requirements. The Foreign Service must continue to improve its performance and do so in the face of rigidities inherent in a specialized government career service. It obviously has an extraordinary need for versatile and flexible officers and personnel management skills of the highest order, not only to meet long-term requirements overseas but to cover State's requirements in Washington.

8. Would it be in the over-all interest of the U.S. Government to transfer from State and the Foreign Service their present economic and commercial responsibilities? The judgment in this paper is unequivocally negative. If this transfer were made, the process of "economizing" the Foreign Service would be reversed. The Foreign Service would become, in reality, the caricature drawn by its severest critics: a corps of one-sided, economically illiterate, politically oriented elitists.

9. Would it be desirable to transfer to State and the Foreign Service the present overseas economic responsibilities of other agencies? With regard to the State-Agriculture relationship, it appears that both agencies are satisfied with its operation and that, all things considered, there is not enough to be gained by the transfer to compensate for the various costs. With regard to the State-Treasury relationship, the situation is more important and less clear. To the extent that the inter-agency relationship overseas is less than satisfactory, it probably reflects circumstances in Washington and the position accorded to Treasury by law and by the President. Thus a major change in Washington would have to come before a major change abroad.

10. If the existing multi-agency structure is retained, can the current performance overseas be

improved without prejudicing the long-term interest in an effective overseas establishment? It is suggested that strong, convinced leadership and better incentives and tougher standards for the Foreign Service will produce desirable results. It is also suggested that the present scope of the economic/commercial cone is too broad and that the Foreign Service would benefit by devoting to economics the training, personnel exchanges, and service now put into commercial activities that have little to do with the important processes of foreign relations (i.e. export assistance and promotion and investment assistance). Two questions require consideration: Would the transfer of these functions to Commerce open the door to subsequent pressures to transfer economic functions as well (which would be undesirable)? Would Commerce be willing to accept such a transfer, or consider it too narrow?

11. U.S. representation in multilateral diplomacy takes on a number of forms, largely under the direction of State or, for international financial organizations, the Treasury. This area appears to pose no serious organizational questions aside from a tendency for U.S. delegations to be over-staffed. There seems to be no good reason to depart from the flexible and pragmatic approach to administration that currently prevails.

I. INTRODUCTION

The study will consider the allocation of responsibility within the U.S. Government for the staff required by U.S. overseas missions¹ for their role in the execution of foreign economic policy. Should economic and commercial officer positions be filled exclusively from the Foreign Service, as political officer positions are? Or should they be filled in substantial part from other government departments (Treasury, Commerce, Agriculture), more or less at current levels and in accordance with existing interdepartmental arrangements? Or should the participation of other departments be significantly increased? And with regard to multilateral economic relations, are the arrangements for U.S. participation satisfactory?

The study of questions of this kind—particularly the role of the Department of Commerce—has a long history, the most recent chapter of which is the report on "Commercial and Economic Representation Abroad" prepared by the Staff of the Office of Management and Budget (OMB) in January 1973. The OMB study analyzed several organizational options but did not explicitly press any one of them; the President, in his memorandum of May 29, 1973,

¹Multilateral institutions in the United States (e.g. UN, IMF, IBRD) will be treated as "overseas."

chose to retain the organizational status quo. The study also presented a large number of recommendations for the improvement of the performance of economic and financial functions abroad that did not depend on a change in basic organization. At the direction of the President, these recommendations were reviewed with State and Commerce, which were made responsible for implementing those that were agreed upon and for reporting on progress. OMB considers that this process has not been completed.

The OMB study came after pressures by the Secretary of Commerce within the Executive Branch in 1969 to assume responsibility for all of the commercial and economic activities of State, and the introduction of a bill by Senators Magnuson and Inouye in October 1971, which would have established an International Commercial Service under the direction of the Secretary of Commerce and presumably would have produced the result desired by the Secretary of Commerce.

The question of the allocation of responsibility for economic activities overseas and how such activities should be organized is still very much alive, even outside the deliberations of the Commission. Its further examination at this time is given particular point by the growing appreciation, heightened by recent developments in the world economy, that the United States needs better coordination of its domestic and foreign policies in order to protect its national interests and achieve its national objectives. There should be no doubt now that economic issues are not separate from, but rather are interwoven with, political, security, and other international issues and are therefore part of the basic substance of U.S. foreign policy.

Nevertheless, traditional concepts and traditional semantics die hard. We still read about "foreign policy" and "foreign economic policy" as though they were separable; we still see, despite an effort of 20 years or more, a sharp division between political and economic officers in the Foreign Service and a questionable degree of economic literacy among the political officers; and we can only speculate whether, in present circumstances, an unaggressive Secretary of State faced with an aggressive Secretary of the Treasury (the situation of 1971) could be making major public pronouncements on international economic issues—or whether he would choose to, if major current economic problems (oil, finance, food) were not so obviously and intimately linked to critical questions of military security and world peace.

At the present time, about 50 percent of the Foreign Service corps is in the political cone, 29 percent in the economic/commercial cone, and the remainder in the administrative and consular cones. These figures reflect a major shift toward economic

competence in the Foreign Service, but they should not represent the end of the "economizing" process, i.e. the process of reorienting the Service to meet the realities of current and prospective international relations.

The achievement of U.S. objectives abroad is the end-product of a complex process of policy formulation and execution involving Washington and overseas organizations. If there is a failure at any stage of the process or if the several stages do not mesh and communicate properly, the process will not succeed. It may be saying the obvious, but it is important to stress that the right overseas organization cannot be conceived in a vacuum. The overseas organization is supposed to serve the Washington organization and, in the nature of things, will be subsidiary to it. Thus, the character of the overseas organization will depend heavily on how the earlier stages in the foreign policy process are organized, how they are linked together, and how they, in turn, choose to instruct and listen to the overseas organization. The conclusions of this study will therefore have to be considered within the framework of the decisions on the organization of the earlier stages of the process.

II. THE STRUCTURE OF ECONOMIC DIPLOMACY

The Secretary of State is the President's principal foreign policy adviser and has charge of the execution of foreign policy through the Department of State and the Foreign Service. He is responsible to the full extent permitted by law for the over-all direction, coordination, and supervision of inter-departmental activities of the U.S. Government overseas, except for military forces and for activities which are internal to approved programs of a single department and do not significantly affect the over-all U.S. overseas program in a country or region. (White House Statement of February 7, 1969 regarding the NSC, and State Foreign Affairs Manual Circular No. 521, February 6, 1969.)

Since foreign policy is the product of many forces and interests, domestic and foreign, the Secretary of State is in fact only one of many participants in its formulation. And since the forces and interests change with new circumstances at home and abroad, foreign policy itself must change. It is clear that decisions on foreign policy are often compromises; and, as is true of compromises generally, a foreign policy decision may satisfy none of the participants completely and leave at least some of them anxious to find the means to change it or moderate its implementation.

The Secretary of State, once a policy decision is

made, is responsible for its implementation overseas. He is supposed to have the authority to carry out that responsibility through the Department of State and the Foreign Service and other overseas representation. He is, or should be able to control, the "one voice" enunciating foreign policy. To the extent that officers of other government departments become involved in the execution of foreign policy, he should have the authority to ensure that they act in conformity with the foreign policy and that the separate voices are in harmony if they cannot be kept silent. Thus, he should be able to act as the concertmaster when he is not performing as the soloist.

In a perfect world, the concertmaster would be in full control, and all the performers would play according to the score and his interpretation. In reality, however, the ability of the Secretary of State to control the execution of foreign policy depends on a number of factors: his influence in the higher levels of government, his forcefulness and style, and his effective authority overseas which may, in turn, depend on the character and composition of the overseas establishment.

The Secretary's dual role in the execution of foreign policy corresponds to the two aspects of his substantive expertise. He and his staff at home and abroad can claim that they are the foremost if not the sole governmental authorities in the political aspects of foreign policy and that international political affairs are their exclusive responsibility within the government. With respect to other matters, particularly economic, other departments naturally claim to be more expert than the Department of State and to have exclusive or at least major responsibility within the government. The Secretary of State, as the coordinator of the several aspects of foreign policy, thus serves as agent for a number of clients with special fields of responsibility (notably economic affairs) when he himself has a special field of responsibility (political affairs). In this sense, he and the Foreign Service can be charged with a "conflict of interest" before they go to the office in the morning.

This paper will be mainly concerned with the permanent overseas establishment through which the Secretary of State executes his responsibilities, i.e. the American embassies, now 132 in number. (To a limited extent, we can include American consular posts in this category.)

Each embassy is responsible for the full range of inter-governmental (bilateral) relations: political, security, economic, cultural, scientific, etc. The typical embassy contains two main organizational units: a political section, comprising officers responsible for political matters, including security and labor affairs, and an economic/commercial section, including officers responsible for trade, busi-

ness assistance and export promotion, finance, industrial production, agriculture, petroleum, aviation, science and technology, and other specialties. (For the sake of convenience, the terms "political section" and "economic/commercial section" will be used in this paper to represent the two main areas of embassy responsibility. "Economic section" may be used as a short form of "economic/commercial".) The ambassador, as head of the embassy, has authority over all employees assigned to his mission; he also is the senior U.S. official for all U.S. Government personnel located within the country to which he is accredited. His alter ego, a deputy chief of mission, is almost always a career Foreign Service officer.

Great changes in the structure of foreign relations, especially economic relations, have taken place over the past thirty years. Today, of course, there is much more to diplomacy than the formal bilateral process² carried out by ambassadors and their staffs. Several factors have contributed to the change: the growth of the reality and the appreciation of international economic interdependence, the acceptance by nations of multilateral commitments and the creation of multilateral institutions, the development of speedier and more reliable transportation and communications, and the establishment of U.S. economic (and political) leadership in the free world.

These changes have led to a whole new pattern of economic diplomacy. Accordingly, we have to consider, in addition to our American embassies, several other channels for foreign economic relations:

(a) The U.S. maintains representation at permanent multilateral establishments, some of which is under the direction of the Department of State—e.g. our representation to the UN, to the OECD, and to the FAO—and some of which is under the direction of other departments, notably the Treasury—e.g. our representation to the IMF and the IBRD.

(b) U.S. officials participate in special bilateral economic negotiations or consultations. (The recent creation of bilateral joint commissions is a good example of this activity.) Usually, personnel from the Department of State or an embassy provide the leadership or at least participate; however, in some instances, they may have no role at all (e.g. some financial negotiations carried on abroad by high Treasury officials with finance ministers and central bankers).

(c) Formal U.S. delegations are sent to periodic

²Two important aspects of the bilateral process are not treated in this paper: USIA and its own foreign service system, which have no role in economic affairs as such; and AID, which is considered in a separate paper.

or special multilateral meetings and conferences (some of which are related to multilateral institutions with permanent U.S. representation), where the degree of direction and control of the Secretary of State may depend on whether his department provides the funds for the U.S. delegation.

It is apparent that multilateral channels for economic diplomacy are of great importance and that they not only supplement the permanent bilateral channel provided by the embassy but also tend to supplant it, thus changing the significance and character of the embassy's work and its need for staff. And to the extent that government departments other than State control these channels, their influence in the whole process of U.S. foreign relations is enhanced.

III. THE EMBASSY AND ITS ECONOMIC FUNCTIONS

To conduct its foreign relations with maximum effectiveness in the achievement of national purposes, the United States (and any other country) requires overseas representation characterized, among other things, by a high degree of professional skill, a thorough appreciation of national objectives, interests, and policies, and a disinterested devotion to the execution of the policies defined by the national executive.

The Foreign Service

In the area of political affairs—the ancestral home of the diplomat—the overseas staff comprises, by and large, members of the career Foreign Service. They are selected on the basis of specific professional qualifications and competitive examinations; they are promoted on the basis of demonstrated professional growth, achievement, and potential (and selected out because of the lack thereof); their salaries and perquisites are provided according to a uniform scale; and they work under the supervision and control of a common chief (the Secretary of State) and his executive and management staffs. In a benign environment—and perhaps even in an unfelicitous one—the members of such a service are likely to develop a strong loyalty to their peers and to their common mission.

There are, of course, some exceptions to the career pattern. A substantial number of ambassadors are appointees from private or public life outside the career service. A number of specialists are employed as Foreign Service Reserve officers to fill positions requiring scientific, technical, or other special or professional skills not available in the

career service. But even these categories operate within the administrative structure and hierarchy of control, and under the other rules, applicable to the career service.³

From the point of view of its administrator, an organization of this unified character is ideally suited to efficient, purposeful, and controlled operations. It is, of course, vulnerable to all of the disabilities of bureaucracy—particularly old bureaucracy. But if it is provided with creative, respectful leadership along with sensitive and wise management, it can maintain high standards of professional skill, continuing vitality, and an invaluable *esprit de corps*.

It is also worth noting that an administrator dealing with a unified service fully subject to his control is in a good position to allocate funds and staff to his programs and objectives on the basis of a coherent set of priorities.

At a number of our larger missions abroad, the economic/commercial staff is substantially different in character from the political staff. Instead of the single corps that is engaged in political affairs, we find in economic/commercial affairs a mixture of career Foreign Service officers and employees of other departments, some of whom are members of a formal overseas service of their own (Agriculture) paid according to the Civil Service scale, others temporarily on the Department of State rolls as reserve officers with Foreign Service pay, but retaining their old Washington affiliation (Commerce), and others maintaining all of their old relationships with their headquarters, including Civil Service pay, and not in a special service (Treasury).

The Functions of the Economic Staff

The functions of the economic/commercial section of a U.S. mission are, in broad terms, similar to the functions of the political section: to report, represent, negotiate, and advise. In addition, the economic/commercial section may carry the responsibility for the administration of certain operational programs, a responsibility rarely if ever seen in the political section.

1. *Reporting.* A mission's first duty is to report to Washington on the objective facts and on prospective developments in the economy of its host country (on money and capital markets, the balance of payments, imports and exports, industrial and farm production, employment, the fiscal situation, national income, and the like); on government policies relevant to the economy; on the thinking of

³In addition, overseas missions have the support of secretarial, administrative, communications, etc. staff (FSS personnel) and local (foreign) employees (FSL's).

members of the government and of the opposition, and of other opinion leaders; on the attitudes of the general public, business, labor, and the farm community on economic issues; etc.

The value of such reporting depends on its timeliness, its accuracy, the validity of its analytical and interpretive comments, and its relevance to current and prospective international issues of concern to the United States and to economic problems within the United States. It is apparent that good economic reporting requires not only general professional skills and knowledge but also the cultivation of fruitful contacts, perspective, discrimination, analytical perception, and the capacity to convey information and articulate ideas with precision and clarity.

A word should be added about the analytical aspect of embassy economic reporting. The OMB study of January 1973 (pp. 116-126) indicated rather discouraging conclusions on this point: concerning its quality, its relevance for policy purposes in Washington, and the seriousness of Washington's desire that it be provided. This may be an exaggerated generalization; in any case, the report rather plainly suggests that, if the Washington agencies wanted and asked for more and better analytical reporting, they could get it.

2. *Representation.* The embassy has a continuing responsibility to present U.S. Government views, to further U.S. economic policies, and to promote and protect economic rights and interests of the U.S. Government and its citizens. It pursues these activities with government ministers and officials and also with the private sector.

3. *Negotiation.* The responsibility to negotiate agreements and to settle differences on international economic questions is a traditional diplomatic function that, in the past, was the cream of a mission's work. U.S. missions have much less scope for such activity now, however, than they had a generation ago. There are several reasons for the change: the increasing disposition of foreign governments to deal with the United States at the center of power; the development of speedier transportation, which enables Washington officials to carry on negotiations abroad direct (with or without embassy participation) rather than through the embassy and thus reinforces the foreign inclination to deal direct with Washington; and the development of multilateral economic agreements and multilateral institutions to administer them, the institutions becoming the natural site for negotiations.

4. *Advice on policy.* At its own initiative or in response to Washington requests, a mission can contribute to decision-making by submitting its advice on policy issues. The effective performance of this function requires not only initiative but also a high

degree of discrimination and self-restraint. It is only too easy for an aggressive mission to undermine its influence and credibility in Washington by failing to appreciate what it should not do.

A mission should not become the advocate of its host country. It can present economic facts, the views of others, and its own assessments of the consequences in its host country of alternative U.S. policies, but it must be careful in that process to limit its pleading to the furtherance of U.S. rather than foreign interests. If Washington becomes suspicious that a mission has contracted "localitis," the mission's influence and usefulness may be fundamentally impaired. Similarly, the mission should not purport to be expert in global affairs merely because its staff reads the newspapers and the cables. The mission would do well to confine its judgments to its own area of jurisdiction unless, by chance, it had a recognized, special competence in other areas (e.g. because its staff included officers who, by reason of recent, previous experience, were accepted in the U.S. Government as experts).

Finally, the mission should not purport to be expert in the domestic problems of the U.S.—again, with the possible exception noted above. It is, of course, essential that the mission keep as currently informed as possible on the domestic problems and policies of the U.S.; and in communicating to Washington, its perspective must be broad enough to respond to Washington's natural interest in matters even indirectly relating to U.S. problems. It is dangerous for the mission to presume, however, that it is the peer of Washington in the immediacy of its information on U.S. problems or in its capacity to judge the weight to be given to U.S. domestic considerations as against foreign policy considerations.

In short, the mission should appreciate that it is not the place to strike a balance among the several international and domestic considerations that can appropriately enter into the making of a foreign policy decision. If it succumbs to the temptation to do this—and it is particularly hard for unseasoned officers, regardless of rank, to resist—it can lose its Washington audience or at least cast doubt on the soundness of its advice in the area of its genuine competence.

It is probable that the foregoing cautionary observations are worth making to a very few missions, whose senior officers are exceptionally aggressive and uninhibited. If the judgments in the aforementioned OMB report of January, 1973 (pp. 108-109, 126) are reasonable—and they appear to be—embassies provide too little rather than too much policy advice. They are seldom requested to provide such advice; they are not so well informed on Washington interests and concerns as to be confident in volunteering advice; and, since the advice

they do volunteer is often of little effect in Washington, they tend to be discouraged.

5. *Operational programs.* Some U.S. personnel abroad are responsible for activities that are beyond reporting, representation, negotiation, and advice and may be called "operational" (the distinction between operational and other activities is, of course, not necessarily precise). The negotiation of contracts with the private firms in connection with an AID program, the procurement of military equipment for U.S. Government account, the investigation of U.S. tax returns, the inspection of processing plants providing meat to the U.S. Armed Forces, the observation of meteorological phenomena—all are examples of the type of program that has little to do with the foreign policy process, could well be handled outside an embassy, but nevertheless, for reasons of convenience, could find a home in an embassy.

Any activities of a U.S. Government officer overseas can lead to a problem between governments and therefore should be subject to the authority of the American ambassador in the country of the officer's assignment. Operational activities, however, that are not significantly related to the foreign policy process are remote from the target of this study.

IV. THE CENTRIFUGAL FORCES

There are a variety of reasons which may be advanced for filling positions in the economic/commercial section with officers outside the Foreign Service. Some of them can be supported by reasoned argument related to the over-all interest of the U.S. Government, though their cogency may vary with time and circumstances. Other reasons, no less important for those who express or are motivated by them, seem less objective.

Professional Competence

It is argued that the Foreign Service cannot supply adequate numbers of properly trained economic officers to meet U.S. needs abroad. This was a powerful argument at the end of World War II and for some years thereafter, but a great deal has been done over the past 20 years to improve the economic competence of the Foreign Service as a whole. The specific changes include: a higher degree of economic training among the entrants to the Foreign Service; the assignment of a considerable number of officers to a year's economic training at a university graduate school; the assignment of large numbers of officers to comprehensive and intensive courses in economics at the Foreign Ser-

vice Institute; the assignment of officers to economic positions in other government departments (Treasury, Commerce, Agriculture, AID). In addition, the Department of State and the Foreign Service have given increasing emphasis to the importance of economic work and have established an economic/commercial function or career "cone" equal in status to "cones" in political affairs, administration, and consular work.

As a result, the Foreign Service can now deploy extensive resources in professional economics at all levels, even in particularly difficult fields, such as finance. Although the supply is admittedly still short of the total need and some positions may be difficult to fill, the problem is no longer one of a general inadequacy. And if present programs continue, the shortage should become less and less apparent.

It may nevertheless be argued that general professional competence in economic and commercial work is not sufficient—that a significant number of permanent jobs overseas of a specialized character require technical training and immediately relevant experience that cannot be provided within the Foreign Service system.

Orientation of the Foreign Service

The insistence that the Foreign Service cannot provide professionally competent officers for certain economic/commercial positions may, in fact, reflect the belief (expressed or concealed) that a Foreign Service officer cannot or will not be counted on to provide a disinterested or properly oriented performance. The Foreign Service officer, it is feared, will give undue weight to political factors and become the defender of a foreign government rather than the protector of U.S. interests. That suspicion may not be directed toward an individual officer but to the whole "system" (including the ambassador), which, it is argued, is naturally slanted toward giving predominant weight to political considerations. The "solution," then, would be to fill a job or a job category whose content is of special interest to a particular department from the staff of that department.

Other Factors

Even if other departments did not seriously question the competence, balanced orientation, and responsiveness of the Foreign Service, they would not necessarily be satisfied to turn over to the Foreign Service the whole task of the overseas implementation of foreign economic policy.

First, a department with its own officer in an

embassy naturally feels that it would have extra assurance that, in an inter-agency struggle over a change in policy, it could better control his performance and command his loyalty in support of his department's objectives. The better the control in the field, the stronger the leverage in Washington.

Second, a department whose senior officials maintain close contacts and negotiate with their opposite numbers in another country may consider it essential to have their own employee as an intermediary in the American embassy there. They may believe that only such an employee would be accepted as a reliable intermediary by the foreign officials. The need for inter-governmental negotiations of a highly specialized nature outside normal diplomatic channels, though open to challenge, can on the whole be accepted as legitimate and necessary in some circumstances. In fact, the Secretary of State and his deputy may not wish to take on Cabinet-level negotiations on critical problems of a complex, technical nature and of great immediacy. But does it follow that a Foreign Service officer cannot serve as a suitable intermediary? Would not a foreign official accept as a reliable intermediary anyone who was put forward and treated by his American principal as competent and trustworthy?

Third, departments consider, not without reason, that service abroad expands the capacities and skills of domestic staff concerned with foreign economic matters. In fact, officers of one department have said that they cannot successfully attract the best talent to their domestic staff unless they can offer one or more assignments abroad as part of the job. The importance of this consideration—service abroad as a training mechanism—is often overlooked.

Fourth, the desire to acquire control of positions and functions abroad can reflect pure bureaucratic greed—the impulse to build an empire, to extend power, and to enhance prestige and status that has nothing to do with the efficiency of government or the welfare of the United States.

V. THE MULTI-AGENCY STRUCTURE

There are many departments, bureaus, and agencies that participate to some degree with the Department of State in the process of foreign economic relations (FAA, FEA, EPA, FCC, FMC, Eximbank, Interior, etc.). Only three of them, however, are significant factors overseas—Agriculture, Commerce, and Treasury. A fourth—the Office of the Special Trade Representative—though not in the permanent overseas establishment, should be considered here since it plays a highly important role in overseas negotiations.

Treasury

Treasury activities abroad will be outlined in some detail in order to illustrate the complexity of the personnel situation overseas.

At the present time, the Treasury has approximately 275 employees (including clerical staff) overseas. About 175 are working for the Bureau of Customs; about 50, for the Internal Revenue Service; about 40, for the Office of the Assistant Secretary for International Affairs (OASIA); and a small number for the Secret Service and for the Comptroller of the Currency.

All of these employees are in the Civil Service, and paid by Treasury according to the GS schedule. (There is one exception: in order to obtain Minister-Counselor status in the U.S. Mission to OECD, the Treasury officer assigned there is becoming a Foreign Service Reserve officer.) They are not organized into a formal overseas corps, and would not ordinarily move between Treasury bureaus. Their normal headquarters is Washington, to which they will return after a tour of duty that ordinarily ranges from two to five years. Assignments of Treasury employees overseas are ordinarily cleared with the Department of State. Where the Treasury employees are part of the embassy structure, they may receive efficiency ratings in the manner of the Foreign Service (though perhaps in abbreviated form); however, the quality of their performance is ultimately judged, and their promotions decided, by the Washington headquarters.

The Bureau of the Customs engages in several types of activities through its permanent overseas staff, in addition to special teams sent abroad for *ad hoc* projects: pre-clearance of travelers and their belongings (employees in this work are attached to U.S. district offices, although they work in a number of Canadian cities, in the Bahamas, and in Bermuda); technical assistance to foreign governments; customs inspection at U.S. military installations; and customs investigation. The investigatory activities are centered in ten posts, including seven U.S. embassies where the customs staff reports to the chief of the economic section.

The bulk of the work of the permanent overseas customs staff apparently represents an extension abroad of domestic operational programs and, except to a minor degree (e.g. the investigation of dumping), may be regarded as outside the foreign relations process. On the other hand, Customs is involved in that process through the representatives it sends to international meetings (e.g. Customs Cooperation Council, IATA, IMCO, ICAO).

The overseas staff of the IRS (the Revenue Service Representatives) provides "taxpayer service" to some two million Americans abroad, examines tax returns, engages in tax investigations, and pro-

vides technical assistance to several foreign governments. It also deals from time to time with questions related to double tax treaties. The IRS staff works at 14 locations overseas, including 13 national capitals, where, if possible, they are physically in the U.S. embassy and part of the economic section. Except for its work in connection with tax treaties, the work of the IRS staff generally represents an extension abroad of domestic operational programs and is outside the foreign relations process.

Aside from U.S. representation at international financial organizations, the significant overseas activities of the Treasury that are part of the foreign affairs process are carried out under the direction of OASIA by financial attaches in 13 posts, including 11 U.S. embassies, the U.S. Mission to the OECD, and the Consulate General in Hong Kong. The Treasury officers (about 17, in grades GS-12 to GS-18) may perform all of the functions of the diplomat: reporting, representation, negotiation, and policy advice. They occupy an important place in the economic staff and, depending on the decision of the chief of mission, may have supervisory responsibilities in the economic section (e.g. as deputy chief or chief). Because of their professional knowledge and skills and high rank, and because finance enters into virtually all domestic and international economic affairs as well as many political and security matters, Treasury officers are heavily involved in the major responsibilities of the embassy and, by and large, occupy a position of much broader significance than the officers of Commerce and Agriculture.

The size of the OASIA complement in an embassy, including the establishment of OASIA positions at additional posts, is a matter of negotiation between State and Treasury. The Treasury roster overseas includes a financial attache plus an assistant financial attache in Tokyo and in its four embassy offices in Europe. Assistant attaches are not assigned to other posts. In some instances, as agreed between State and Treasury, Foreign Service officers work under the financial attache and in the No. 2 position in his office. Assignments under a financial attache have long been attractive to economic officers in the Foreign Service. State would undoubtedly like to see positions held by the assistant financial attaches generally available to competent Foreign Service officers, thus providing additional opportunities to broaden the skills of the Foreign Service in finance and economics. Perhaps for analogous reasons, State is apparently resisting the establishment of Treasury positions at new posts. On the other side, Treasury currently has a significant number of Foreign Service officers on detail for Washington service; there are now nine assigned to the international affairs offices of Treasury.

Though the Treasury officers working for OASIA in Washington and overseas are not organized in a formal service, there is no doubt that they have developed a pattern of employment, a style of operations, and an approach to the embassy structure that gives them many of the characteristics of a "Financial Foreign Service." (The idea of serving abroad, for example, is very much a part of the OASIA's recruitment process.) What is particularly noticeable in this regard is the common though unofficial view that, though the Treasury officer abroad will serve within the economic section as a member of the embassy team, he in fact is the personal representative of the Secretary of the Treasury and should try to maintain a position of independence and preserve his Treasury identity in his contacts. That attitude is associated with the traditional mode of operation of high Treasury officials, who consider it necessary to maintain direct communication with their opposite numbers in foreign governments and in international financial institutions. Treasury's position in the NAC reinforces this practice (see Section VI, below).

Some observers, in and outside of State, are convinced that the effectiveness of the financial attaches as representatives of Treasury is significantly enhanced by Treasury's access to the resources of the Exchange Stabilization Fund which, for example, enables Treasury to finance special meetings of its financial attaches with their superiors, in Washington and overseas, to discuss policy and strategy.

The cultivation of Treasury independence, or at least quasi-independence, overseas is a matter of some concern in the Department of State. The degree of concern depends to some degree on the view at the top: when the senior officers of State are interested, forceful, and influential in the economic arena, their staff officers are in a stronger position in the bureaucracy and are less worried about Treasury, but that situation is far less common than the reverse.

There seems to be a sustained concern in the Department of State that the Treasury, to reinforce its power in government, maintains its own lines of communication to its officers abroad, via the telephone and private letter, for issuing instructions and guidance and receiving important information that should move through regular channels after appropriate clearance. This concern was heightened when the Treasury recently acquired electronic facilities that give it an additional capability to operate outside the usual State communications network. In one instance, the use of the Treasury facilities for instructing the U.S. representative to the Asian Development Bank in Manila was challenged by the U.S. embassy. Treasury considers that State concerns in this area are exaggerated, if not groundless; they reiterate that direct communication between the Treasury and its officers abroad

is limited to operational and administrative matters that have nothing to do with foreign policy.

Commerce

Since 1939, when the Department of Commerce lost its separate overseas service, the commercial activities of the U.S. Government have been carried on under the jurisdiction of State and the Foreign Service, with the cooperation of Commerce. State's ability to carry out its responsibilities in this area has been challenged in and outside the Executive Branch on numerous occasions on grounds of both competence and bias. And the State-Commerce relationship has often produced friction between the two agencies and satisfaction in neither. Nevertheless, the basic relationship remains, though important changes in the administration of the relationship have been made over the years, notably following a State-Commerce review in 1966 when a flexible coordination of economic and commercial functions overseas was agreed upon.

The Department of Commerce has a fairly broad range of interests in the activities of overseas missions. At one end of the range, these activities embrace (a) export assistance and promotion (collection and dissemination of basic business information for American businessmen; dissemination abroad of information on American products and exporters; collection and analysis of information on business opportunities abroad; the administration of trade shows, exhibits, and organized business travel abroad), and (b) the facilitation of international investment (the collection and dissemination of information of interest to American investors and to potential foreign investors in the United States).

In connection with American investment abroad, embassies may on occasion assist an American investor in dealing with a host government, an activity that may involve sensitive political questions, including the interpretation of international treaties and agreements and controversial governmental policy. Similarly, what may be a routine, non-political export promotion activity in a mature, industrialized country may be a difficult, politically sensitive operation in a young, less developed country. Thus, purely commercial activities may, in some circumstances, move into the next band of the spectrum: the promotion of U.S. economic interests through government-to-government activity, including the negotiation of differences and the resolution of policy conflicts. Progressing further across the spectrum of Commerce interests, embassies are responsible for providing information, analyses, and advice for use by the several offices and departments involved in the Washington process of

making commercial and investment policy and defining new programs and objectives. In this area, Commerce is interested in commercial policy questions, national and global macroeconomic trends, the domestic economic policies of foreign governments, and even political developments abroad in so far as they may effect the demand for American exports and opportunities for investment.

Several aspects of this spectrum of activities are worth noting. Activities at the commercial end of the spectrum are outside the interest of any government agency other than Commerce. Without depreciating their importance, they may be described essentially as an overseas extension of the domestic program of the Commerce Department, with only a limited or even marginal connection with the foreign policy process. In some respects, they are analogous to consular activities. Activities at the other end of the spectrum are, in contrast, of day-to-day interest to a number of agencies, including the White House, and are intimately connected with the foreign policy process. Moreover, the skills required at the two ends of the spectrum are fundamentally different from one another. An excellent performer concentrating on export assistance and promotion, for example, may have no capacity to represent the views of the United States on complex commercial policy questions or to interpret the significance for U.S. trade interests of economic or political developments in a foreign country; and *vice versa*.

The Commerce Department participates in or influences the work of the overseas establishment in a variety of ways. Along with other agencies, it actively participates in the formulation of economic/commercial reporting requirements and in the selection, performance evaluation, inspection, assignment, and training processes of the Foreign Service. Commerce takes this responsibility seriously and maintains a sizable staff, including a number of senior officers, to direct these activities in the Commercial Representation Division of the Bureau of International Commerce. It is fair to say that, in some important respects, Commerce has acquired a more powerful role in these processes than any other agency outside of State. For example, Commerce maintains a full-time liaison officer with State who reviews all proposed overseas assignments to economic and commercial positions, sits in State's assignment panel, and can require delay and reexamination of any proposed assignment. This is not a routine or formalistic activity for Commerce since it maintains detailed records on the past performance of officers in economic and commercial positions abroad and knows who it does not want to see again in a position of consequence.

The direct participation of Commerce in the staffing of the U.S. overseas establishment takes two forms. First, Commerce appoints from its own

staff the deputy director for each of the 13 U.S. Trade Centers abroad; he continues to serve as a Commerce employee under Civil Service rules, and to be paid according to the GS salary schedule. (There apparently is a legal reason for a GS rather than FSR designation that is related to the deputy director's responsibility to sign contracts in behalf of Commerce.)

Secondly, Commerce and State exchange personnel on a one-for-one basis under a formal agreement (now being renegotiated) concerning the development and world-wide assignment of economic/commercial officers. The present agreement calls for the assignment of about 30 Commerce employees as Foreign Service Reserve officers overseas (with a normal tour of three years) and the assignment of an equal number of Foreign Service officers to work in Commerce (with a normal tour of up to two years). A Commerce officer may serve as director of a Trade Center, as commercial counselor of an embassy, or in any other economic/commercial assignment agreed with State. As an FSR, the Commerce employee works according to Foreign Service rules, but expects to return to Commerce where his future career is determined. His performance is evaluated in the usual Foreign Service process and also within the Department of Commerce.

In the multilateral sphere overseas, Commerce participates along with other agencies in the composition of U.S. delegations to international economic and commercial meetings; it plays a significant, though not a leadership, role in such activities as the forthcoming multilateral trade negotiations. It has only occasional responsibility in the direction of U.S. representation in overseas multilateral conferences, i.e. in certain specialized meetings attended, for example, by the National Oceanic and Atmospheric Administration.

Agriculture

Title VI of the Agricultural Act of 1954 authorized the Secretary of Agriculture to appoint agricultural attaches for the purpose of promoting American agricultural exports. Their activities would be carried on "consonant with United States foreign policy objectives as defined by the Secretary of State."

With this authority, the Foreign Agricultural Service (FAS) was established. It now comprises some 860 employees world-wide. About 125 FAS Americans, including 100 officers, serve abroad; they are attached to 53 U.S. embassies, four consulates, and three special U.S. missions (to the European

Community, to the OECD, and to the European Office of the UN, which covers GATT).

Overseas FAS officers are subject to State clearance. They serve one or two two-year tours and return for work in Washington. As Civil Service employees, they are paid by FAS according to the GS pay scale. In the embassy, the Agricultural Attache reports to the head of the economic section, though he can claim direct access to the chief of mission as a representative of the Secretary of Agriculture. The FAS employees receive efficiency reports through the embassy system; they are also rated through FAS end-user reports. Their promotions depend on the decision of FAS Washington.

The principal duties of the overseas FAS officer include: gathering and reporting commodity intelligence and information; reporting on developments in trade policy and other policies of foreign governments relevant to agriculture; facilitating market development by providing business assistance; monitoring compliance with P.L. 480 programs; providing a liaison service for other units of the Department of Agriculture; and contributing advice to the ambassador and to Washington on policy.

In contrast to the Treasury overseas staff, the FAS staff is not tied to separate bureaus in Washington. In general, the typical FAS officer serves at a one-man office and covers a range of functions that may be of interest to a number of consumers in his home department. Only at a few large posts—London, Tokyo, Bonn, Rome—where the FAS has three to five officers, is some specialization possible. Thus FAS officers generally become involved, to at least some significant degree, in the four basic diplomatic functions.

According to the Department of Agriculture, in addition to its permanent FAS establishment overseas, it may have at any time as many as 250 officers overseas on temporary duty (from a few days to a year or more) from other units of the department engaged in research, animal quarantine programs, and similar technical work. These specialists usually do not have any structural connection with American embassies. Agriculture has indicated, also, that it has sent 68 teams to the U.S.S.R. over the past eighteen months in connection with the exchange of information on technical and research subjects.

Agriculture plays an active role in multilateral activities. The assignment of FAS officers to U.S. missions to international bodies has already been mentioned. The attache in London serves as permanent U.S. representative to the Wheat Council and has served in a similar capacity with respect to other inter-governmental commodity organizations. Agriculture also participates in a very large number of international overseas conferences each year; in fact, it maintains a full-time officer on as-

signment in that connection with State's Bureau of International Organization Affairs. Most delegations to meetings on agricultural conferences are led by Agriculture, except for meetings on commodities in which the U.S. is interested as importer rather than as exporter. Agriculture provides all the financing for U.S. participation in many conferences on technical subjects, such as forestry, poultry production, plant protection, and veterinary subjects; such activities are usually carried out without State participation. State, or State plus Agriculture, provide financing for other conferences (e.g. FAO meetings on broader subjects), and State is thus involved in the administrative and substantive side.

Agriculture does not currently maintain a program with State for the exchange of FAS and Foreign Service personnel; there are isolated cases where an inter-agency detail is arranged. Foreign Service officers do not serve under the agricultural attaches abroad.

Special Trade Representative

Before 1963, the Secretary of State was responsible for the administration of the U.S. trade agreements program and was the principal negotiator of trade agreements. The Trade Expansion Act of 1962 transferred these responsibilities to the Special Trade Representative (STR). The Trade Act of 1974 does not include any specific change in the position of the Secretary of State; but, according to an analysis by some governmental experts, it reinforces the power of STR and makes it an even more potent factor than before in foreign economic affairs.

The Office of the Special Trade Representative provides leadership in the formulation of U.S. trade policy over a large substantive area through its chairmanship of the inter-agency Trade Staff Committee and the Steering Group and through its position as Executive Director of the Council of International Economic Policy. STR does not maintain a staff abroad, but relies on U.S. embassies and the mission in Geneva to carry out its responsibilities. Decisions and instructions are sent overseas through State.

The coming overseas role of STR will be centered in the U.S. Delegation to the Multilateral Trade Negotiations. Presumably STR will chair the delegation and have the final decision on its composition (except, of course, for the Congressional contingent of ten). The funding for the delegation will come from the State conference appropriation and will be administered by State under STR's direction.

VI. MULTILATERAL DIPLOMACY

U.S. representation in multilateral diplomacy includes permanent missions and *ad hoc* delegations and is shared by the Department of State with other agencies, notably Treasury and Agriculture.

Permanent Representation: State Direction

To carry out its relations with multilateral institutions, the U.S. maintains a number of permanent representatives, some of whom are under the control of State and others, under the control of the Treasury.

Permanent representation of that kind under State direction comprises eleven entities separately designated as "U.S. Mission" or "Office of the U.S. Representative," including the following entities of major significance in economic affairs: the U.S. Mission to the United Nations; the U.S. Mission to the Organization for Economic Cooperation and Development in Paris; the U.S. Mission to the European Office of the United Nations and Other International Organizations in Geneva, which, among other things, encompasses U.S. representation in GATT; the Office of the U.S. Representative to the Food and Agriculture Organization in Rome. The total number of economic officers permanently assigned to representation in this category is small; however, their numbers are augmented, often by senior officials from Washington, for important meetings of committees, working parties, etc. The U.S. Mission to the European Community in Brussels may also be included under this head, although purists regard the Community as *sui generis*—neither a multilateral institution nor a sovereign power.

State's direction of such permanent missions is similar to its direction of embassies. In some instances, officers from outside the Foreign Service are included in the representation, e.g. Agriculture officers are included in the mission in Geneva, the mission to the European Community in Brussels, and the mission to OECD in Paris; Treasury officers are in the mission to the OECD in Paris; a Commerce officer has served in the mission to the UN.

The Department of State is also responsible for U.S. representation to some multilateral economic organizations through officers of the U.S. embassy at the site of the organization. In Rome, for example, the Office of the U.S. Representative to the Food and Agriculture Organization has a separate identity, but the U.S. representative works in the embassy, subject to the ambassador's general direction; the Agriculture officer in the embassy is not

part of the Office of the U.S. Representative. Other embassies provide representation to a multilateral organization through a Foreign Service officer without establishing a formal "office"—for example, U.S. representation to the Economic Commission for Africa in Addis Ababa.

State's direction generally includes budgetary control, the recommendation of candidates for appointment as chiefs of mission, the assignment of Foreign Service personnel, the approval of personnel from other agencies, and the issuance of policy instructions and guidelines following discussions with other interested agencies.

Permanent Representation: Treasury Direction

On the basis of authority specified in the Bretton Woods Agreement Act, as amended, and supplementary executive orders, the Treasury maintains comprehensive control over U.S. permanent representation in the multilateral financial institutions: the International Monetary Fund, the International Bank for Reconstruction and Development and its affiliates, and the Inter-American Development Bank, all in Washington, along with the Asian Development Bank in Manila.

Pursuant to the Act, the Secretary of the Treasury is chairman of the National Advisory Council on International Monetary and Financial Policies and thus is in the position of providing the President with recommendations for persons to serve as the permanent U.S. representative (Executive Director) to each of these institutions, along with his alternate. The Secretary of the Treasury is specifically empowered by Executive Order (No. 11269) to instruct U.S. representatives to international financial institutions after consultation with (not the concurrence of) the Council. This is an unequivocal delegation of important powers to the Treasury in the foreign affairs field.

The Executive Order goes on to say: "Nothing in this order shall be deemed to derogate from the responsibilities of the Secretary of State with respect to the foreign policy of the United States." This statement seems to confirm the preeminent position of the Secretary of State in the foreign field, if international financial policy is defined as part of "foreign policy." In reality, it merely gives him a basis for arguing with the Secretary of the Treasury, and the two departments concerned know that very well.

A good deal of the critical work of the International Monetary Fund in recent years has been done in special committees where high Treasury officials participate along with the permanent U.S. repre-

sentatives. Other U.S. agencies may also participate, though clearly in a subsidiary position.

The senior authority of each financial institution is a Board of Governors, including one Governor from each member country, which meets annually. The Secretary of the Treasury is the U.S. Governor in each case; the alternate U.S. Governor customarily comes from outside the Treasury (e.g. the Department of State traditionally provides the alternate U.S. Governor in the IBRD). Other agencies (e.g. Commerce, Eximbank) and the Congress provide members of the U.S. delegation to the annual meetings of the Governors, but they do not have a role in the debates.

Policy positions and guidelines for U.S. representatives in these financial institutions are developed under Treasury leadership through inter-agency discussion in the National Advisory Council or otherwise. There is no doubt that the Treasury, by virtue of its position in the National Advisory Council, its relationship with the U.S. permanent representatives, and its participation in special multilateral committees, is in a dominant position in the representation of the U.S. Government in this area.

International Conferences

A large amount of work in the foreign affairs field is carried out by U.S. representatives or delegations designated for periodic or special multilateral conferences or *ad hoc* consultations or negotiations. Broadly speaking, the support and direction of the U.S. representation—its composition and the coordination of U.S. policy positions and guidelines—are the responsibility of the Department of State, though there are important exceptions, as indicated below. A number of these meetings are connected with organizations (and their committees) where member countries maintain permanent representatives; on some occasions, for one reason or another, representatives from capitals may be needed to supplement the permanent representatives on the spot.

The responsibility of the Department of State is derived from its general authority in foreign affairs, reinforced by its control over the annual appropriation for International Conferences and Contingencies. In staffing U.S. delegations to such conferences, the Department of State seeks the participation of other agencies (as well as the Congress and the general public) on the basis of their substantive interest. There is no general formula for selecting delegations. The approach is entirely pragmatic: to find the best representation in the U.S. Government (and sometimes outside) within

available funds. Thus, the chairmanship of a U.S. delegation is not necessarily State's property, e.g. the Chairman of the U.S. delegation to the OECD Economic Policy Committee customarily comes from the President's Council of Economic Advisers. The special situation existing between State and STR with regard to the forthcoming multilateral trade negotiations has been noted in Section V, above.

The exceptions from State's direction in this area are notable in the financial field, where Treasury's position is paramount. Treasury's role in directing the permanent U.S. representation to financial institutions has its counterpart in staffing international meetings, which may include non-Treasury officers. The Treasury provides the administrative support and controls the funds for this purpose.

The scope of this kind of foreign affairs activity is indicated by the following figures. For fiscal 1974, the Office of International Conferences of the Department of State has recorded U.S. Government participation in 740 international conferences (including a small number in the U.S.) in which 4,341 U.S. delegates took part. About one-quarter of the U.S. delegates were available at the site of the conference they attended and did not have to be brought from other locations. Of the total of 740, U.S. participation in 495 conferences was financed at least in part out of State's conference appropriation; of the other 245, some of the funding came from other State funds, but an undetermined number were financed entirely from outside funds, e.g. the Department of Agriculture. It is estimated that about two-thirds of the 740 conferences were concerned wholly or substantially with economic subjects.

VII. CONCLUDING OBSERVATIONS AND OPTIONS

At any moment in time, the character of the economic organization that the U.S. Government needs abroad should, of course, reflect what the U.S. wants or should want that organization to do. Since U.S. needs will vary significantly over time, the effectiveness of the organization will necessarily depend on (i) the degree to which Washington keeps current its definitions of immediate and prospective needs, and (ii) the capacity of the organization to meet new requirements and its flexibility in responding to change.

There are inherent inflexibilities in the management of U.S. Government activities that make the task of overseas personnel organization and administration one of the most difficult in the world. A private organization can recruit its people from

the whole universe of talent, pay whatever is necessary to meet an urgent need for new skills, and move or fire its people and reshape its staff virtually at will. In the end, the criterion for what it should do—the profit and loss statement—is relatively clear. The inflexibilities in U.S. Government personnel administration through the Civil Service are enormous by comparison. And they are more serious in the career Foreign Service system, considering its limited size, the complexity and variety of its functions, and the political factors that enter into the appointment of a substantial part of its ambassadorial leadership. It is apparent that, in this field, there is an extraordinary need for personal flexibility and versatility along with personnel management skills of the highest order, including recruitment, training and retraining programs, the identification and development of executive capacities, and the matching of real job requirements and genuine skills to achieve the optimum allocation of human resources. We can only ask whether the Foreign Service is using the best techniques available and performing the best possible management job.

The time factor is at the heart of any career service. A career service, by definition, must consider not only how it should handle today's tasks, but how the way it functions today will enable it to meet its responsibilities ten or twenty years hence. We are now much concerned about economic skills in the overseas establishment; in a decade we may face a critical shortage of scientists and engineers. Each personnel management decision, then, becomes part of a long-term process of development and training—of producing not only the right officer for today's assignments but the needed executives for tomorrow's. The executives serving the Secretary of State, we emphasize, must be able to supply not only professional skills for senior economic jobs but also a minimum economic competence for all senior jobs if the authority of the Secretary is to be perceptively exercised over the totality of foreign affairs functions. The U.S. Government may therefore have to accept the possibility of paying some short-term costs in the form of current, less-than-optimum performance, or higher-than-minimum dollar outlays for training or extra staff, for the sake of achieving longer-term goals.

Although this paper is concerned with the overseas establishment, we should note that the Foreign Service must provide skills, from the bottom to the top, to staff economic/commercial positions not only overseas but also in Washington. Close to forty percent of the 880 jobs requiring economic/commercial skills in the State organization are in Washington, and the Foreign Service is not able to deploy the necessary skills to meet the total requirements. State has a fundamental problem in this respect, since the expertise and personal status neces-

sary to be effective in the Washington bureaucracy cannot be acquired overseas: they require sustained experience at home. Ever since State dismantled the Civil Service structure in the old Bureau of Economic Affairs and generally introduced the Foreign Service regime and its rotation principle there, it has had to bear a significant disability in carrying out its tasks at home.

The use of the current job abroad to develop the incumbent for future responsibility abroad and in Washington is a serious consideration not only for the Department of State but also for other government departments which are concerned with foreign economic affairs. The Treasury, for example, needs a staff of international financial specialists in Washington to carry out its traditional and statutory responsibilities. Can that staff do its best work without some first-hand experience abroad? If not, how can that experience be acquired without making it impossible for the Foreign Service to develop its own staff along similar lines?

There are three broad options available to the government (plus any number of variations) for improving the organization of overseas personnel engaged in economic and commercial functions:

1. Recast the basic overseas organization by transferring from State and the Foreign Service their present economic and commercial responsibilities.

2. Move toward a unified organization by transferring to State and the Foreign Service the present responsibilities of other agencies in this area.

3. Retain the current multi-agency structure, but with modifications that will improve the current performance overseas without significantly prejudicing the long-term national interest in an effective overseas establishment.

Option No. 1: The Foreign Service Without Economics

The advantages and disadvantages of removing State and the Foreign Service from a position of responsibility in economic/commercial affairs were discussed in some detail in the OMB report (pp. 171-172), which gave particular attention to the difficulties of operating a dual foreign service and the problems that would be created between whatever new agency (Commerce, in the OMB study) took over from State and the other departments interested in foreign economic policy.

There is one consideration that deserves further discussion because it appears to be of paramount importance. For more than 20 years, State has been trying to improve the competence of Foreign Service officers in, and enhance their sensitivity to, eco-

nomic issues and to eliminate the compartmentalization of foreign policy into politics and economics. A great deal of progress has been made, though the process is not yet complete and the Foreign Service still lives with the charge that it is not evenhanded in the evaluation of political and economic considerations.

Any action that would reverse that course or seriously inhibit the further "economizing" of the Foreign Service would do serious damage to the long-term interest of the United States in having an effective overseas executor for its foreign policy. The transfer of economic responsibilities from State would not only affect particular jobs and functions; it would also withdraw from the intellectual environment in which Foreign Service officers now operate the economic element that has been permeating it with progressive intensity. In time, the Foreign Service would become, in reality, the caricature currently drawn by its severest critics: a corps of one-sided, economically illiterate, politically oriented elitists. It is hard to envisage how any new organizational arrangement for foreign economic affairs could provide adequate compensation to the U.S. Government for the diminished utility of that kind of a Foreign Service.

Option No. 2: Transfer of Economic Functions to State

The OMB study did not analyze the desirability of transferring economic functions to State, perhaps because of its terms of reference and the atmosphere in Washington at the time the study was prepared. Nonetheless, in view of the broad scope of the Commission's assignment, this option merits examination now.

Basically, two government departments are involved—Agriculture and Treasury. Agriculture, through the Foreign Agricultural Service, has a clearly defined, limited role in U.S. missions abroad. Aside from a minimal amount of normal bureaucratic friction between Agriculture and State, the present arrangements work to the apparent satisfaction of the two agencies and the other parts of the Washington foreign policy mechanism. State and the Foreign Service show no general concern that they are significantly inhibited from carrying out their over-all responsibilities by the existence of a separate FAS. (There may be some dissenting individual views, of course.) Moreover, it is highly questionable whether State would be psychologically and administratively prepared to take on FAS responsibilities in the foreseeable future while it is still striving to develop its capacities to meet the requirements of other sectors of foreign

economic affairs. Beyond that, it seems significant that neither agency feels the need to establish a State-Agriculture exchange program to develop its officers and protect its special interests. A small, informal program that existed some time ago died quietly and is not mourned.

In sum, while certain advantages in administration and policy coordination might be envisaged through moving FAS functions into the Foreign Service, the potential gain does not seem to be great enough to risk the operational disruption, employee dissatisfaction, and other costs that such a transfer would entail—leaving aside the feasibility of obtaining the acquiescence of the farm bloc in Congress.

The Treasury question is considerably different. Unlike Agriculture, Treasury's interests range over virtually every aspect of foreign economic affairs and many aspects of security affairs; it occupies a central place in the economic organization of a number of important embassies and other U.S. missions; it has an important part of foreign economic relations under its own control, i.e. U.S. representation in international financial institutions; and, in general, it is one of the most powerful agencies in the government.

State would indeed be happy to shift the State-Treasury balance of power in its favor by an organizational change, particularly for the times when the Secretary of State is less powerful *vis-à-vis* the Secretary of the Treasury than he is today. It is worth noting that, while the State-Commerce relationship has been highly visible from time to time within the government and in the public prints, the State-Treasury relationship, which has been much less obtrusive, covers an area of policy much more important to State and the Foreign Service.

Would the interests of the government be served by a wholesale transfer of overseas Treasury functions to State? For the special activities of the Bureau of Customs and the Internal Revenue Service, the answer would seem to be the same as the answer to the question about the Foreign Agriculture Service. For the activities flowing from Treasury's OASIA, the answer is less clear. A case can be made for the transfer on administrative grounds and on the premise that the Secretary of State should not have to carry the difficult burden of trying to enforce his authority overseas on the employees of a strong competitor whose loyalty may, at times, gravitate towards policies that do not parallel those he believes he is authorized to pursue. On the other hand, problems of departmental loyalty are not conceived abroad; they are only symptomatic of circumstances in Washington and the position accorded to Treasury by law and by institutional arrangements under the control of the President. It would seem that, so long as the Treasury

Department continues to have the position of power it now enjoys in the government, little would be accomplished by attempting to change fundamentally the position it occupies overseas. That is to say, a major change in Washington would have to come before a major change abroad.

Option No. 3: Improve the Existing Structure

This option contemplates (a) changes in the management of the Foreign Service itself as well as (b) changes in the present structure of interagency relationships that would not prejudice the long-term development of the overseas establishment as an instrument to carry out the whole of U.S. foreign policy in a properly balanced fashion. As indicated in Option No. 1, changes that would tend to produce a reversion to a one-sided Foreign Service would not be considered desirable.

First, as to the Foreign Service itself. Despite many years of effort, the Foreign Service still considers that it is short of the economic/commercial skills needed to meet economic/commercial requirements. The apparent shortage would probably be even greater if the skills were more stringently evaluated, as some observers consider necessary. If there are not enough economic/commercial officers available to fill the jobs requiring such skills, we can only speculate unhappily on the degree of economic competence or literacy among officers outside the economic/commercial cone.

The shortage may exist because of insufficient funds for special training, insufficient incentives for officers to acquire the special skills, or inefficiencies in the management of available skilled personnel. Some of these difficulties may be unavoidable, but none of them will be solved without strong, convinced leadership. The time factor is, of course, important. Perhaps twenty-five years of work might be needed—a whole generation of officers—to raise the economic competence of the Foreign Service, including its senior officers, to the desired level. It is not clear when the present effort really began, but the first generation apparently is still years away from its maturity.

Among the measures that would provide evidence of leadership conviction and offer incentives for the Foreign Service as a whole to acquire economic skills are: (a) as soon as feasible, the conspicuous appointment of more economic officers to ambassadorial or other senior positions not of an economic nature, (b) the institution of a requirement that, after a specified date, no officer will be appointed as a chief or deputy chief of mission or to a senior position in Washington, except a posi-

tion with no responsibility for dealing with economic affairs, without a demonstrated literacy in economic affairs; (c) the institution of a requirement, analogous to the foreign language requirement, that no political officer will be eligible for promotion beyond a certain level unless he demonstrates a minimum level of competence in economic affairs.

The discussion of improving the economic competence of the Foreign Service raises the basic question whether it made a wise decision to integrate economic and commercial activities. As indicated elsewhere in this study, there is a great difference between the two ends of the economic/commercial spectrum, and the skills required for various kinds of work within it are by no means interchangeable. Beyond that, good training for the economic end of the spectrum will produce skills—a grasp of theoretical concepts, a knowledge of analytical tools, and a competence in analytical techniques—of a professional, transferable character usable in a variety of economic specialties, while training in commercial work usually will not. With a scarcity of human and financial resources, State and the Foreign Service are getting no bargain when they invest in commercial skills while they continue to face shortages of economic skills.

It follows that assignments working in the Treasury or under Treasury representatives overseas are likely to have much more long-term value for the Foreign Service than assignments in Commerce or in embassy commercial activities. If for no other reason, the Foreign Service would be well advised to press for broad access to assistant financial attache positions overseas.

In this context, we can reopen the question whether the commercial work of the overseas establishment—business assistance, export promotion, and investment assistance—cannot be sensibly transferred from State to the Department of Commerce. It is undoubtedly possible to marshal a number of administrative and bureaucratic arguments for or against such a transfer (see pp. 170–171 of OMB study), but the central question seems to be whether or not that action would significantly improve the over-all performance of the U.S. establishment overseas, without damaging the remaining economic activities of the Foreign Service. Such an action would have the great advantage of terminating a responsibility of the Foreign Service that has little to do with the important processes of foreign relations and requires the special training and service of a substantial number of Foreign Service officers interested in working in economic or economics-related areas. The main concern would seem to be whether safeguards can be provided so that the initial transfer of commercial functions would be carefully delimited and not open the door

to subsequent pressures to transfer significant economic functions. The experience of the Foreign Agricultural Service provides some enlightenment on how such a transfer can be managed and contained, but admittedly it provides no guarantees that history will repeat itself.

Although some Commerce officers regard the idea of limited transfer as desirable and feasible, it is not at all certain that the Commerce Department leadership would welcome a proposal of this circumscribed character. Would it provide a career service attractive enough to interest good people, or would it formally confirm an arrangement in which commercial officers would serve as second-class citizens abroad with no opportunities to go to the top? Apparently the Department of Agriculture does not find that its arrangements abroad pose a fundamental problem in that regard (though Agriculture is not entirely happy about its status overseas). The top of the FAS career ladder is in Washington, not overseas. The same approach is perforce taken by Treasury: it has no formal overseas service, and consequently there is no question about where the top of the career ladder is located.

There is one current difficulty inherent in the multi-agency participation in overseas economic functions that would be exacerbated by the introduction of Commerce as a new component: that is, the problem of establishing over-all budgetary control in accordance with rational decisions based on national priorities. At the present time, there is no apparent way of ensuring a rational distribution, by activity, of the total expenditures of U.S. Government for its overseas establishment. American ambassadors admit that they have little basis for judging the relative importance of embassy activities that are the overseas extension of domestic programs, e.g. the work of the Bureau of Customs. Moreover, an agency that spends a small fraction of its budget overseas is much freer than State to press its case for the maintenance of its own staff positions in a general budget-cutting exercise at overseas posts. In the circumstances, a sensible outcome of such an exercise is more of an accident than anything else. Whether or not Commerce acquires an autonomous operation overseas, methods for controlling the expenditures for personnel at U.S. establishments abroad should be examined with a view to subjecting such expenditures to the test of relative national priorities.

Supplementary Questions

1. *Non-State officers in the economic section.* There are no formal rules governing the channels of communication between non-State officers and the am-

bassador or fixing the position of such officers in an embassy's economic section. Ordinarily, an embassy officer of any affiliation would report to the ambassador through his superiors up the line. Officers of non-State agencies might have a better basis than a Foreign Service officer to establish a regular, direct channel to the ambassador, but that would be up to the ambassador. In any case, there is little doubt that any non-State officer can reach the ambassador directly if he has any matter concerning his agency's interests that he feels important enough to raise, unless his personal standing with the ambassador has collapsed.

The assignment of non-State officers to the position of chief or deputy chief of the economic section is neither impossible nor common. Much would depend on an officer's competence and personality and the quality of the relationships he had developed in overseas work, particularly with the senior officers in his embassy. At least one factor may tend to discourage such appointments. Under current personnel policies, successful executive or supervisory experience is a critical factor in obtaining promotions to the senior ranks of the Foreign Service. Since positions providing such experience are limited in number, particularly at posts with sizable staffs, they are of special importance to the career service. This may not make good reading in other agencies, but it would be hard to argue, in the circumstances, that the Foreign Service should provide general access to executive and supervisory experience to officers who get their promotions in another service.

2. *U.S. representation to multilateral organizations.* The administration of U.S. participation in multilateral economic organizations can be divided into three general patterns:

(a) Representation in international financial institutions: Treasury maintains clear administrative and substantive control in this area. Treasury selects the permanent representation, subject to White House approval, and provides its instructions; it leads the delegations to periodic and special conferences and drafts the position papers. Interested agencies provide representation in such delegations and have an opportunity to discuss the formulation of U.S. positions, but they may not have much leverage.

(b) Representation in other multilateral economic organizations in which there are multi-agency U.S. interests: State provides the adminis-

trative support through Washington offices of U.S. missions overseas; State also provides all or part of the funding. The White House or State, usually after inter-agency consultation, selects the permanent representation, which often includes non-State officers. State usually coordinates the multi-agency process of preparing guidance, but in some cases another agency (e.g. CEA, STR, Treasury) may have the leadership role. Similar practices prevail for representation to periodic or special conferences.

(c) Representation in multilateral economic organizations in which there is a single (or narrow) U.S. agency interest: Usually meetings of this kind are of a technical rather than a policy nature. State may provide some administrative support, funds, and other assistance; in any case, it usually plays a subsidiary or marginal role, while the interested agency provides the administrative and substantive leadership.

In all cases, of course, U.S. policy guidance and positions are governed by any relevant decisions of the higher councils of government, e.g. NAC, NSC, CIEP. It is the responsibility of the principal U.S. representative assigned to a permanent organization, or the head of a delegation, to see that the U.S. representation conforms to those decisions along with any other positions that have been adopted. How he does this is necessarily very much a matter of his own judgment.

This broad summary indicates the variety of practices and processes that are followed; they have developed through experience and inter-agency negotiation and reflect the variety that exists in U.S. interests and in the character of the organizations and conferences in which the U.S. Government participates. There seems to be no good reason to depart from the flexible, pragmatic approach that currently prevails. Uniformity seems neither feasible nor desirable.

There are no apparent problems that justify recommendations for substantial change. Perhaps the most persistent problem is the tendency to over-staff delegations to periodic or special conferences. Because of the limited size of appropriated funds available to State's Bureau of International Conferences, its staff perforce resists that tendency. When substantive offices of State or other agencies are prepared to provide their own funds for the travel of their officials, resistance is more difficult.

The Personnel System For The Conduct Of Foreign Economic Policy

Sidney Weintraub
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I. The Issues Being Examined And Why.

The organization of the government for the conduct of foreign economic policy can be examined from several vantage points:

- At the overall organizational level, or where the central coordination should be for decision making at the highest reaches of government.
- At one level removed from this, to deal primarily with staff coordination rather than the central decision-making process. Instead of examining whether the high-level system should be State Department-centered, or White House-centered, and if in the White House whether the lead should be taken by the National Security Council (NSC), the Council on International Economic Policy (CIEP), or some other body set up for this purpose, examine rather how the staffs of different agencies involved in some way in foreign economic policy should interact with each other to reach decisions or to put issues forward so that decisions can best be made.
- What should the personnel system be for recruiting, training, and assigning people engaged in foreign economic policy? The people involved in this process are likely to be on the scene for decades, giving durability to this aspect of conducting foreign economic policy, whereas overall organizational relationships are more subject to change as the personalities involved change. It is striking to read the hearings held in 1972 by the Subcommittee on Foreign Economic Policy of the House Foreign Affairs Committee on the organization of the executive branch for the conduct of foreign economic policy: most witnesses experienced in inter-agency decision making advocated the

organization which existed when they helped create it, demonstrating both the subjective and generally transitory aspect of overall coordination patterns as opposed to personnel systems.

- How should our embassies and missions overseas be staffed and how much autonomy should individual agencies have in the staffing of overseas functions for which that agency feels it has primary responsibility? While theoretically all official personnel in a country are subject to the authority of the ambassador, different government agencies have differing degrees of independence: Agriculture has its own service; Treasury, for all practical purposes, has its own service which deals primarily with other treasuries and central banks; Commerce and Labor are more integrated into the overall Foreign Service.

The examination in this paper will focus on the personnel system, with some forays into some of the other levels to the extent necessary for a complete discussion of personnel matters. By personnel is meant the civil or foreign services, that is, the people who enter the government intending this to be a lifetime career. In the State Department, this career opportunity tends to go as high as assistant secretary, at times even under secretary, and overseas as ambassador; for most other agencies, the opportunity seems to cut off lower, at the office director level, at times as deputy assistant secretary, and overseas as an attache.

Why examine these issues at all, particularly since they have been examined regularly over the years? It is not the organization, the coordination process, the personnel system, or the structure of an embassy that matters, but rather the attention and expertise devoted to the solution of foreign economic problems. What has changed since the last

such examination to bring about the perception that the U.S. Government is not devoting the optimum abilities to the problems of foreign economic policy formulation? The following is a partial listing of these changes:

- The interaction between foreign and domestic economic actions seems greater now than in the past. Energy issues, other commodity price changes, crop failures, problems of U.S. inflation and stagnation, domestic interest rates, sale of U.S. aircraft abroad, automobile emission standards, are some self-evident examples of this interaction. It was always clear that our foreign policy influence rested on the foundation of the strength of the U.S. economy, but conscious recognition of this verity sometimes got lost in the detail of decision making, e.g., going into Viet Nam without also seeking non-inflationary financing of the costs. A part of the desire for organizational change is to minimize the chances of similar decision-making deficiencies in the future.
- This domestic-foreign interaction increases the number of U.S. agencies whose interests must be considered in the formulation of foreign economic policy. This, in turn, involves complex tradeoffs between domestic and foreign interests or pressures, since decisions can affect income and employment both here and abroad. Export controls on soybeans, import controls on meat, the imposition and elimination of capital controls, setting domestic oil price levels, gold policy, and exchange rate realignments are recent and current examples of issues where these tradeoffs were and are germane.
- There have, in the last few years, been major shortcomings in the analysis of tradeoffs and, indeed, even conflicting actions. The export control action on soybeans was taken primarily for domestic economic reasons, seemingly without adequate assessment of the intensity and durability of foreign reaction, and what this might portend for our agricultural exports well into the future. At the very time Secretary of State Kissinger was promising the Brazilians and Colombians that the U.S. would not take trade-restricting actions against them without adequate consultation, the Treasury was preparing public notices of the intention to examine into the countervailing duty on products coming from these countries.
- There have been major international negotiations and actions conducted out of any traditional channel, seemingly for bureaucratic or prestige reasons involving the negotiator, where the avoidance of serious damage to the

U.S. interest, if damage was avoided, was fortuitous. The manner of conducting textile negotiations, many negotiations on East-West economic relations, are examples of this.

It is a cliché to state that foreign economic policy is often the stuff of which foreign policy is made, since it is generally recognized that trade, financial, investment, development, and other economic matters, which can affect the well-being of individuals and countries, are not simply technical issues. The oil price increases, the handling of recycled surpluses of oil exporters, the sale of grain to the Soviet Union, each set in train developments that can affect the political structures of countries. But even though these are not simple, technical issues, understanding all their implications and suggesting solutions require a great degree of technical expertise. Dealing with these issues also requires a sense of the workable, both in terms of domestic implications and managing their foreign aspects. The State Department lacks the necessary technical expertise to deal with most of these basic issues, in part because of inadequate incentives in the past for persons with the appropriate skills. Domestic agencies generally are conscious of the domestic pressures, but tend to downgrade the foreign aspects just as the State Department might downgrade the domestic aspects. Domestic agencies generally also lack the training and experience that would give them sophistication in dealing with foreign cultures.

The personnel-organizational problem relates to finding the best techniques for bringing all these technical and foreign and domestic sensitivity skills to bear on foreign economic problems.

II. The Options for the Personnel System.

It may be desirable to set forth some value judgments that might have general acceptance as a framework for discussing the pros and cons of particular options:

- Almost by definition, any personnel system should facilitate the examination of tradeoffs between domestic and foreign economic viewpoints, since it is the perception that this is now lacking that seems to be the most important argument for change.
- The present process for coordination of policy contains much bureaucratic posturing, and despite the fact that it would take a good deal of the "fun and games" away from the daily lives of government officials, it would be desirable to minimize this.
- However, the system should not lose the ad-

versary procedure under which different agencies with different outlooks present different solutions permitting the final decision to be the product of debate and compromise.

- While radical changes are sometimes desirable and necessary, the more acceptable process in our society and governmental structure is to move in a desired direction by incremental changes. A process may be more effective than a single step since it is likely to be more durable. Perhaps the major defect of the Wristonization program of some 20 years ago, when an effort was made to force the State Department into one service, foreign and domestic, was that it was promoted with a kind of zealotry that seemed to beg for opposition.

1. *At one end of the spectrum, a personnel system might be completely State Department-oriented.*

Under such a system, various positions in the State Department and in other agencies could be designated foreign economic policy positions. The State Department could recruit for all these positions under a more or less common list of academic and other requirements, which should be extremely stringent. The persons recruited would then be subject to assignment to any of these positions, in any of the agencies, at home and abroad.

2. *A variant of this, although in a bureaucratic sense it might be viewed as the opposite end of the spectrum, would be a single corps of foreign economic officers unaffiliated as to Department.*

Somebody would have to manage this corps, e.g., to set standards, recruit personnel, assign people, devise methods for their promotion, etc. If the State Department were to do this, which has much logic given State's experience and primacy in foreign affairs, this option really is not much different from the first. If somebody else were to manage the corps, then the bureaucracies would be different, since management is a large part of the key to control.

It may be useful to discuss these two variants together since, other than the bureaucracies of State or other control, the advantages and disadvantages are similar.

The main argument in favor of a central elite corps is that both the recruitment and experience processes could serve to develop officers with the technical expertise necessary to deal with complex and sophisticated economic issues. These officers could also develop skills in foreign affairs, since a good part of their lives would be devoted to this. One of the present impediments to State Department recruitment and retention of persons with advanced economic degrees is that these officers often find themselves in assignments which do not require these skills (such as consular or administra-

tive jobs, or routine economic/commercial reporting functions that the Foreign Service must carry out), and there is a tendency both to boredom and for the skills to atrophy. Being part of a common and generally elite pool of economists could help solve this problem.

If officers had generally homogeneous backgrounds and assignments, there is some danger that the adversary process would be lost. One of the criticisms, often leveled by officials of other agencies against the State Department is that its officers all seem to argue from the same general mold. However, this defect should not be overstated, since even though officers would be subject, in theory, to assignment to any of the constituent agencies, in practice there is likely to be a great deal of specialization and consequent development of agency "loyalty." A good analogy on this point is the British home civil service, which in principle is a single service with persons subject to assignment to any agency; and indeed, assignments from one agency to another are reasonably common. But even with this, persons develop different expertises, which in turn permit give and take among agencies.

However, there are drawbacks to these options.

One of these is the conceptual one from which this examination started: if a greater understanding is desired on the interplay between domestic and foreign economic considerations, is this really achieved by setting up a foreign economic corps? Would members of this corps get enough understanding of the domestic part of problems by serving in an essentially domestic agency, but in a position that clearly involved the foreign activities of the agency? Do we really want people with an expertise of what goes on abroad to argue with other people with the same expertise, or do we wish to bring about a clash of the two expertises, one foreign and one domestic?

Another drawback has to do with the conduct of foreign affairs itself. The rewards in the State Department and the Foreign Service are greatest for political officers and for officers who deal with specific countries or a region as opposed to those engaged in functional issues, such as economics. The evidence of this is clear from any examination of the number of ambassadors and other senior officers who truly are technically proficient in economic issues as compared with those from the so-called political cone of the State Department. The organization of the State Department is only one facet of the conduct of foreign economic policy. But is it desirable to further separate the political officers from the economic, which would be inherent in setting up a separate foreign economic corps?

Possibly these shortcomings of a single corps, of further fragmenting the conduct of foreign policy

between a political and an economic group and of losing the clash between domestic and foreign economic expertise, could be overcome, but another question which should be asked is whether this solution is too radical. Many competent people do not want to live outside the U.S., and unless they were forced to do so (as the Wriston approach did), there could not be a single corps. If the single corps were within the State Department, the domestic agencies might build up counterpart corps of persons loyal to their agencies. If the corps belonged to another or to no agency, would this diminish career opportunities? The State Department might object to giving these officers the top jobs, e.g., assistant secretaries or ambassadors, and the essentially domestic agencies might also find few senior opportunities for persons skilled in foreign economic issues.

The two options under discussion would provide for complete functional integration of foreign economic officers, and at the same time a degree of disintegration of foreign economic from other foreign policy personnel. Other countries have been wrestling with the same kinds of issues and a brief digression recounting the experiences of some of them might add some perspective to our own thinking about personnel organization.

In Canada, the Pierce Task Force, which made its report in March 1970, had as its terms of reference "to study and report, with a view to the maximum degree of integration consistent with the most effective achievement of governmental objectives, on all Federal Government operations abroad." The report, in turn, led to the establishment of an Interdepartmental Committee on External Relations (ICER), a Personnel Management Committee (PMC) of the ICER, and a task force on the integration of support services. The ICER and the PMC still are in existence but seem to be working towards the goal of integration at an unhurried pace. The integration of support services has been accomplished.

In the United Kingdom and France, there are clear separations in recruitment and assignments between the home and the diplomatic services, with some personnel interchanges between the two services, but not much. In both cases, the main efforts have been made, at least in principle, for fostering interchange in the home civil services.

In all three cases (even in Canada, despite the objective of greater personnel integration), a strong distinction continues to exist between the diplomatic service and the rest.

3. *We could maintain the status quo, with a minor modification of seeking more personnel interchange between the State Department and other agencies.*

If one accepts that some change is needed in the organization of the government for the conduct of foreign economic policy, and if this is not to come

in the personnel system as it affects most of the concerned agencies, this would put the burden for change on overall organizational structure and/or the central coordination process. These latter changes may be desirable in any event, but by themselves they do not really tackle the problem of devoting more skills to dealing with foreign economic problems.

However, this option has the attractive advantage of not changing just for the sake of change, which in itself would be a welcome change from the State Department's practices of the last 25 years or so. The Department once felt it needed gifted generalists, then decided it needed more specialists, then it set up a cone system to facilitate more or less comparable degrees of advancement among various functional skills (political, economic/commercial, consular, administrative), then decided it needed managers, then decided it needed more officers with diverse regional experiences, and is once again wondering whether the cone system is a good idea.

Moreover, there is a reasonable degree of interchange now between the State Department and other economic agencies. This interchange is most extensive with the Department of Commerce, which at any one time seems to involve between 20 and 40 people in each direction (the higher number generally being Commerce people assigned to State or overseas missions). As of December 1974, personnel details from State to other economic agencies were as follows: Treasury 10; HEW 7; AID 5; FEA 4; CIEP 4; EximBank 2; Interior 2; and 1 each to the CEQ, Labor and STR. In addition, State officers are detailed to a variety of other essentially non-economic agencies such as DOD, ACDA, USIA, NSC, Justice, and so on.

Except for AID (with 18), HEW (4), and Agriculture (1) personnel assignments from other economic agencies to the State Department are less common. But this does not really tell the full story since many of these agencies have their own personnel operating abroad (such as Treasury, Agriculture, AID, the Peace Corps, and even Commerce, which over and above the exchange program, has some 13 persons assigned to overseas trade centers).

If more integration of human experience in dealing with foreign economic policy is desired, is this best accomplished by a regularized interchange program such as that with Commerce (under which the employee, in a formal sense, becomes part of the Foreign Service for that assignment) or the types of programs that Agriculture and Treasury have (where the person normally retains his home agency affiliation untainted by Foreign Service grades)? The Treasury-Agriculture types of overseas assignments are not integration, but the offic-

ers involved do gain foreign experience. However, these programs also can result in a fragmenting of U.S. action overseas, since the agencies not only have their own formal communications systems with their own officers (as do Treasury and Agriculture), but a good deal of the informal communications are not always known either in the State Department or to the ambassador. The general tradition of the State Department has been to seek to eliminate this fragmentation of overseas operations.

Put more provocatively, the status quo is not really a system but a hodgepodge of formal and ad hoc personnel interchanges, of efforts to give experience to an agency's younger officers (as Treasury does in its overseas assignments) or trying at times to place an agency's otherwise unplaceable officers, of both integrative and disintegrative efforts in overseas missions, of interagency cooperation and competition (such as whether the financial attache in Mexico City should be a State or Treasury officer). Perhaps any system would evolve into a *mélange*, but it does seem desirable to at least seek to have a system.

4. *Set up a system which encourages, even forces, more personnel interchanges among agencies at all levels.*

This is middle ground between the options of a separate corps of foreign economic officers and that of somewhat more personnel interchanges among agencies than now takes place.

There are many variants to such a system, but some of its elements could be the following. Once having spent a few years learning about his or her parent agency, economic officers could be actively encouraged to take assignments in other agencies involved in foreign economic matters. "Actively encouraged" could involve more rapid promotions for persons taking such outside assignments. An even more drastic measure would be to prohibit promotions above a certain level (say office director) if an officer has not served at least x years (say two) in another agency. (The French have such a system of *obligation de mobilité* for *administrateurs civils* to rise above a certain rank.) The outside assignments need not be only in foreign economic areas but, perhaps even more desirable, should subject every officer, and especially those from State, to pressures from domestic economic groups.

(This sketchy example skips over a lot of nuts and bolts necessary to make such a scheme work: who controls and even forces the interchanges; who keeps track of the nature of interchange assignments; if only economic officers required outside assignments to qualify for advanced grades, would this prejudice them as compared with other State Department officers; why not have more exposure to domestic pressures for political as well as economic officers? These are important operational as-

pects that would have to be worked out if this option were chosen.)

It is not clear whether assignments outside one's own agency generally hinder or foster promotion; in any particular case, it obviously depends on the assignment. However, within the State Department at least, most such outside assignments are seen as placing an officer "outside the main stream" (a phrase used by a State Department personnel officer in explaining why it was difficult to find a young State Department economist for assignment to a new AID function seeking to coordinate U.S. development policies. Another example worth citing is the case of an economist seconded to a U.N. agency whose evaluation report was prepared two years in a row by an officer on the U.S. Mission working with the agency; and since the rating officer supervised nothing of the man he was rating, the promotion panel concluded that it had no basis on which to judge the rated officer's fitness for promotion). If more interchange is desired, the promotion penalty should be placed on economic officers who do not get outside assignments.

Looking at the assignment or secondment process from the viewpoint of other than State, the incentives for coming to State or the Foreign Service also have to be augmented. One technique for doing this is to eliminate the separate foreign services which now exist for such predominantly economic agencies as Treasury and Agriculture, placing their interchanges on an integrated basis comparable to that between State and Commerce. In addition, an exchange officer from these agencies should, assuming he merits it, be able to aspire not just to an attaché job (his present overseas ceiling for all practical purposes), but also to counselor, minister, ambassador as possibilities. (Again, this description skips over the crucial operational issue of how people are selected for the most senior jobs.)

The advantages of this option are that it can help to attract the best economic talent and permit its development among all agencies, without losing parent agency affiliation which may be important to career officials. If the promotion and opportunity incentives are made attractive for interchange among all the agencies, and this is seen to be taking place, outside assignments might be sought rather than shunned. It could expose more State Department officers to domestic pressure groups and domestic agency officers to foreign pressures.

The State Department might find this option a difficult one, even a radical one, since it would imply fewer top jobs for its own officers as some of these jobs would go to more talented persons from other agencies. By the same token, however, it might open comparable level domestic jobs to Foreign Service officers (some of whom have been filling these jobs even now). Agencies like Treasury

and Agriculture might not wish to give up their independence in assigning their own officers to foreign missions.

It might turn out, as it seems to have in other countries, that the interchange will become desirable in principle but more or less moot in fact. Nevertheless, this option does have the potential for meeting the desire for constructive change, and generally within the constraints set out in the value judgments cited earlier.

III. Organization of Agencies and Coordination Among Them.

This will not be an examination of the organization of the State Department, but something should be said about State's economic expertise, and about the role of its Economic and Business Bureau (EB).

State now has 812 Foreign Service officers with economic/commercial skill codes, and 97 additional officers, such as Foreign Service Reserve, Foreign Service Staff, and civil service, with these skills. In addition, 66 Foreign Service officers designated as program directors (these are persons in the top grades—41 FSO-1's, 17 FSO-2's, and 8 FSO-3's) have secondary or tertiary skill codes in some area of economics. In many cases, these skills are as sophisticated as those of counterpart officers in the domestic economic agencies, although in most cases they are not. Despite the realization some years ago that State needed more persons with economic skills, and despite the training of hundreds of younger officers in the six-month economics course of the Foreign Service Institute (which gives the officers the equivalent of an undergraduate degree in economics), the State Department and the Foreign Service still have a shortage of economic officers.

Traditionally the Department of State has been country- and geographic-oriented, and the functional bureaus, including EB, have been less influential in the high policy councils than the regional bureaus. In addition, since the regional bureaus tend to control assignments to countries in their areas, an officer seeking assignment overseas is more likely to go to them than to a functional bureau. This tends to make domestic assignment to a country desk more attractive than to a functional area in order to be able to better control the follow-on assignment.

This "pecking order" has been questioned, for example, during the hearings cited earlier of the Subcommittee on Foreign Economic Policy of the House Foreign Affairs Committee. There is no simple answer to the country vs. functional emphasis: should we emphasize more our energy policy, or

our relations with Saudi Arabia and Iran and others? The mix of emphasis will vary as situations vary. A country emphasis may tend to stifle innovation, since what is new rocks the boat; but a problem focus is not necessarily free from this defect either (e.g., U.S. commodity policy has been quite consistent through many vicissitudes and administrations). However, for the purposes of inter-agency coordination of foreign economic policy, the problem emphasis as opposed to the country stress would seem to take priority. The major issues of economic policy, such as energy conservation and cooperation, population, food aid, reserves and production, trade liberalization, the monetary system, and recycling oil producer surpluses, while they vitally affect U.S. relations with individual countries, are essentially global in nature. Resolution of the foreign-domestic tradeoffs in these areas requires the State Department to coordinate them with domestic agencies which will treat these issues primarily on a problem basis.

This would argue not that the EB Bureau need necessarily be given pride of place over the regional bureaus in the State Department's decision making hierarchy, but that it be at least an equal. It also may argue (as Douglas Dillon has) that the State Department's Economic Under Secretary should be senior to its Political Under Secretary (particularly since Secretaries of State tend to focus most on political and security relations).

Perhaps the attribute that most distinguishes EB in the State Department is that it is more subject to pressures from domestic economic interests than are the other bureaus, and EB, therefore, more than any other bureau, is in a position to gauge the domestic-foreign tradeoff needed in economic decision-making. To cite a few examples: EB is the negotiating agent for trade, commodity, maritime, aviation, and telecommunications agreements; it is the bureau most concerned with the domestic implications of foreign expropriations; it more than any other bureau has the expertise to engage the Treasury and IRS on the implications for U.S. business abroad of tax legislation and regulations; it is State's primary liaison with the Export-Import Bank on credit for domestic exporters; and EB officers testify regularly before Congressional committees on these and other issues which affect domestic incomes and business profits.

The list of other agencies whose functions impinge on foreign economic policy is about as large as the agency listing in the Government Manual. It includes all the Departments and just about all independent agencies and regulatory commissions. In some cases the foreign involvement is substantial, e.g., Treasury, Commerce, Agriculture, Labor, the Export-Import Bank, OPIC, the CAB; and in some cases marginal, e.g., HEW, Justice (although

perhaps not so marginal when it comes to anti-trust and narcotics control issues), and HUD.

There would seem to be no a priori reason to exclude any agency from a personnel interchange program, but the emphasis probably should be among agencies with substantial foreign economic involvement. However, it is worth repeating the interchange need not be only in the foreign area; for example, there is no reason why a State officer should not spend a tour in a part of Agriculture other than the Foreign Agricultural Service, or why a Treasury exchange officer need come from its international office.

As indicated at the outset, it is not the purpose of this paper to examine the options for organizing the U.S. Government at its most senior level to make foreign economic policy decisions. However, the bulk of day-to-day decisions are made at less lofty levels. For the most part, decisions are reached in informal meetings or telephone conversations among the actors from the different agencies; and the hope and intent is that these will be more informed decisions if the personnel involved is more alert to both the domestic and international parameters of problems.

There are now many formal inter-agency coordinating mechanisms for economic policy decision making, some of which seem to work well, some of which do not. For example, in this writer's opinion, CIEP as an institution never worked well (although its executive directors may have had personal influence), in part because it lacked authority in the areas in which it functioned: Treasury maintained authority over monetary issues; STR over most trade issues; AID and Treasury over bilateral and multilateral development assistance. On the other hand, the Volcker Group was an effective body for examination of monetary reform issues, and STR for trade issues, probably because the lead agency had both the expertise and ultimate authority for enforcing decisions on the subject matter under coordination.

The National Advisory Council is a peculiar body in that its membership (Treasury, State, Commerce, EximBank, and the Federal Reserve) is not well adapted to overseeing its most time-consuming function of U.S. participation in the development finance institutions. As a result, the really controversial decisions for which the NAC is charged are made outside the formal coordinating mechanism.

A good deal of effective coordination takes place in a sort of floating manner; a body is constituted, by the White House or by a lead agency, either formally or informally, to address an issue at hand. The strength of this technique is that such floating bodies normally include the appropriate agencies,

with the leadership in the hands of an agency with much at stake in resolving an issue and then implementing the decision.

This cursory discussion of a complex issue is intended only to augment some themes contained in the central part of the paper on personnel issues:

- Coordination of economic policy frequently involves weighing competing domestic and foreign pressures, and the stronger the personnel system, the more expert the analysis of these pressures is likely to be.
- To make the same point another way, the personnel involved in the coordination process need not be, indeed should not be, only those involved in the foreign operations of an agency, but also those involved in its domestic programs. This is particularly true for agencies with small or no international staffs.
- The most effective staff coordination mechanisms are those led by agencies primarily responsible for the issues being coordinated, and with a membership appropriate to the issue at hand. In these circumstances, once a decision is made, it is likely to be enforced.
- Staff-level coordination does not require, indeed should not have, a single coordination mechanism designed for all seasons and purposes. Different mechanisms can be used for dealing with trade issues, aid, investment, commodities, money, etc. If the problems are recurring, a standing body might be useful, e.g., for food aid. If they are not, ad hoc bodies set up only to accomplish a particular task and then to wither away probably are preferable.

IV. Conclusions.

This paper is intended more to stimulate discussion than to set forth conclusions. However, the following are some conclusions that might be examined:

1. A massive personnel integration program for the conduct of foreign economic policy, one cutting across many agencies, may not be desirable, and might not work even if in the abstract it were desirable. However, it does have the great attraction of devoting maximum expertise to issues of major consequence to the U.S., and therefore deserves serious consideration.

2. In any event, more personnel interchange than now exists is desirable and, if a more radical solution is not chosen, probably can be structured in such a way that it can be enforced. It will work only if the incentives for a person moving for a time to other agencies are greater than for the person who

stays put in the stream of his own agency.

3. This mobility will be most beneficial if it subjects the officers to the interplay of foreign and domestic pressures involved in decision making.

4. Similarly, foreign policy decisions require rigorous analysis of the tradeoffs between economic, political, and security considerations, and this will not happen if the State Department loses all its economic expertise.

5. Translated into organizational structure, this should involve a strong Economic Bureau and a strong Economic Under Secretary, in State alongside the regional bureaus. It should also involve greater incentives than the State Department has

given in the past to persons with economic expertise.

6. The main conclusion is that since the foreign economic issues with which the U.S. must deal are so complex, the personnel system should be restructured to promote persons capable of handling sophisticated analysis of these issues. The coordination process for decision making requires an adversary procedure involving various kinds of tradeoffs—between foreign and domestic considerations, between political and economic implications, and between particular U.S. relations with a given country or region and broader U.S. interests.

A Critical Appraisal of U.S. International Economic Policy Coordination

Stephen D. Cohen
January 1975

INTRODUCTION

The purpose of this paper is two-fold:

1) To analyze the performance of what is ostensibly the top coordinating group in the U.S. government for international economic policy: the Council on International Economic Policy (CIEP).

2) To offer alternatives for changes in the means by which international economic policy coordination is undertaken.

The basic thesis of this paper, briefly stated, is that the need for top level policy coordination in international economic policy is both necessary and complex, but recent efforts in this direction have proved disappointing.

I. Conclusions

1) Unless all responsibilities for the conduct of international economic policy are to be centralized in one Executive Department, *a very strong case can be made for effective policy coordination at the White House level.* The first of three basic reasons for this assertion is the unusually large number of bureaucratic entities involved in the conduct of U.S. international economic policy. The second reason is that international economic policy is a uniquely complex blend of domestic economic and political forces and international economic and political forces. Very few international economic policy issues are simple in nature and capable of being delegated to a single jurisdiction. Finally, international economic issues come in a variety of sectors: trade, finance, economic assistance, investment, etc.

2) Despite this endorsement of the concept of White House level coordination of international economic policy, it appears that, while the CIEP has institutionally been visible and active in the formu-

lation and coordination of international economic policy, it has merely played the role of an additional, marginal bureaucratic actor in most cases. There is an important distinction between a participant and an effective coordinator or innovator. In fact, *the CIEP has not provided a substantial net injection of new effectiveness or efficiency into policy formulation or coordination.* Its net impact has been hardly visible in existing international economic issues, like trade and finance, where bureaucratic "turf" has already been staked out. When CIEP has fulfilled its unique role of White House level policy planner and coordinator, it usually has been on new issues where a bureaucratic dominion has not been pinned down (*e.g.* foreign direct investment in the U.S.); on issues where competing bureaucracies have reached a stalemate (*e.g.* expropriation) and needed a mediator; or on issues of no great importance to any individual department. Within these limits, the CIEP, to be sure, has been useful.

In short, the absence of a CIEP would only in the most limited of instances have adversely affected the nature of U.S. international economic policy decision-making.

3) *It is fallacious to categorize the CIEP as a Cabinet-level operation.* First, there is no necessity for a formal group to bring together a limited number of Department Secretaries to discuss an international economic policy issue of great importance. The fact is that there are few international economic issues requiring the convocation of all of the seven Cabinet Secretaries who are the members of the CIEP. Secondly, the CIEP staff and duties have been subsumed in more senior White House forums, first by the Committee on Economic Policy and later by the Economic Policy Board.

4) The CIEP was created basically to improve coordination of international economic policy and to make the latter consistent with foreign policy and domestic economic policy. Nevertheless, *there has*

been no reduction whatsoever of existing interagency committees and working groups outside of CIEP. Moreover, not one of these committees or groups has been brought under the aegis of the CIEP, which in many cases was simply incorporated as a new member. Indeed, new coordinating mechanisms have arisen since the CIEP's creation, *e.g.* the Development Coordinating Committee, called for by the Foreign Assistance Act of 1973.

5) *Some of CIEP's problems are internal.* They include the lack of a specific and real Presidential mandate and a rapid turnover in the professional staff, a factor which has produced unevenness in the staff's quality. A third "in house" shortcoming is the fact that none of the Executive Directors of CIEP have been economists or individuals with previous reputations in international economic policy. Nor have they been consistently looked to by the President for leadership in that field. Finally, and by no means least, the CIEP staff has never formally prepared the kind of work agenda that complemented its limited capabilities or exploited its potential influence as a White House policy planner and coordinator.

6) Looking at the experiences of CIEP's predecessor of the 1950's, the Council on Foreign Economic Policy (CFEP), there appears to be a limit to what "White House coordinators" can actually accomplish in this area.

II. A Critical Evaluation of the CIEP

1. AN OVERALL ASSESSMENT

For a variety of reasons, the creation of the CIEP in 1971 has not had a significant impact on the quality of American international economic policy decision-making. The incremental contribution to improving policy coordination and achieving consistency has been neither significant nor substantial. This criticism by no means should be equated with either a call for the abolition of the CIEP or a declaration that it has been an abject failure. Although not living up to its potential, the CIEP has demonstrated an ability to provide a valuable coordinating vehicle for certain policy issues. In the future, it can be assumed that additional policy discussions would be usefully conducted within the CIEP.

When utilizing an historical perspective, it appears that the CIEP represents a reincarnation of the strengths and weaknesses of the Council on Foreign Economic Policy (CFEP) created in 1954 by President Eisenhower and terminated in 1961 by President Kennedy. An internal critique of the CFEP written in 1961 by the then Bureau of the Budget is remarkably applicable to the successor group, the CIEP:

Although the range of subject matter considered by the CFEP has been very broad, including almost every possible area of foreign economic affairs, it cannot be considered the principal interagency forum for any area. Foreign assistance matters are considered and coordinated elsewhere. The NAC is the dominant forum for international monetary and financial policy, as is the NSC in national security policy. Although questions with regard to P.L. 480 are frequently referred to the CFEP, most operational matters are handled by the Interagency Staff Committee on Surplus Agricultural Disposal, the Interagency Committee (Francis Committee), and the Food-for-Peace Coordinator. Preparations for trade negotiations are considered primarily by the Trade Agreements Committee and the TPC. Economic defense and export policy matters are the province of the Economic Defense Advisory Committee and the Advisory Committee on Export Policy.

The CFEP is used to a large extent as a forum for information exchange. Despite the broad charter of the Council, it has tended to deal with specific subjects and issues as they arise, with the line between broad policy matters and other concerns frequently blurred. Because the Chairman has no command authority, decisions must of necessity result from agreement or a "sense of the meeting" or no decision is forthcoming, unless the matter is referred to the President. Frequently, it appears that decisions reached elsewhere are merely ratified in the CFEP.

A more contemporary critique of CIEP's performance was contained in a paper prepared for the staff of the Commission on the Government for the Conduct of Foreign Policy by the National Academy of Public Administration.* It describes CIEP's shortcomings as follows:

The fundamental factor responsible for CIEP's failure to carry out its mission is the nature of that mission—its unrealistic scope and great complexity. The mission statement is more an exercise of rhetoric and hyperbole than a realistic statement of purpose.

In international economic policy, real and ultimate power lies elsewhere. CIEP was instructed to recede in favor of NSC in cases of overlap. Two of its members—State and Treasury—are more equal than the others and, when they felt their interests threatened, they moved to exercise their power.

The underlying reasons for CIEP's shortcomings can be traced to several different organizational and procedural factors. First, from the very beginning,

*This paper is published as Appendix O in Volume VI. Concerning CIEP see Chapter V.

the precise *modus operandi*, jurisdiction, and priorities of the CIEP have never been clearly spelled out. There is general agreement that the CIEP was initially created to be an international economic version of the National Security Council. To achieve this design, it would have to play successfully some or all of the roles undertaken by the NSC: presidential adviser, coordinator of departmental positions, expeditor, and policy planner. In fact, the CIEP has never successfully played any of these roles on a consistent basis.

The second factor has been one of leadership. Ideally, the Executive Director of the CIEP should have a close personal and working relationship with the President, the confidence of senior departmental officials, as well as a strong background in, and grasp of, international economic policy issues. None of the three Executive Directors can be said to have met these admittedly demanding criteria. To the extent that such leadership is lacking, the CIEP is on weaker terms in dealing with the key departments and agencies.

The fact that none of the Executive Directors has been an experienced economist or a close Presidential adviser is probably one of the elements behind the third source of CIEP's shortcomings: the absence of either a clear Presidential mandate or an overt dependence by the President on the Executive Director for international economic advice. (An interesting illustration of this phenomenon appears in the transcript of one of the presidential tapes, when President Nixon repeatedly rejects H. R. Haldeman's efforts to relay the substance of a memorandum written to the President by the CIEP Executive Director, Peter Flanigan, explaining the British decision to float the pound sterling).

A final source of CIEP's problems might be termed managerial. An Office of Management and Budget memo written in 1971, entitled "Starting Points for the CIEP," contained a list of "Key Elements to Building an Effective Council." Four of the five listed elements have never been achieved:

1) "A strong action-forcing system, insuring that the Council will take the lead in policy decisions which can have real 'bite'." As described below, CIEP actions which fit this description have been the exception rather than the rule.

2) "Strong evidence of Presidential interest in the Council's work and intent to use it for decision-making." As mentioned above, this has not yet materialized. In fact, President Nixon removed himself as CIEP Chairman in 1973 in favor of George Shultz, then his chief economic adviser.

3) "Minimum reliance on formal, predictable procedures." Whether deliberate or not, CIEP's operations have never been characterized by formal or consistent procedures.

4) "Adequate substantive staff." There was unanimity among the persons this writer interviewed that the depth and breadth of CIEP's professional staff, especially in the beginning, have been relatively weak for a White House staff. There is complete agreement that CIEP's professional staff has never come close to matching the quality of the NSC staff originally assembled by Dr. Kissinger; this is despite the fact that CIEP was viewed originally as an NSC counterpart in the White House.

5) "Definitive early action on a few major issues." There was also near unanimity among interviewees that CIEP had virtually no direct impact on the decision-making process during its first year. The major preoccupation of the Executive Director during that period was a marshalling of data which demonstrated his belief in the need for reforming the international trade and monetary systems to reflect the decline of American economic strength relative to Western Europe and Japan since the immediate postwar period. These efforts, it should be noted, played a key role in preparing President Nixon for ordering the major international actions included in the New Economic Policy package of August, 1971.

2. THE CIEP'S PERFORMANCE BY POLICY SECTOR

a. Trade

Coordination of the drafting of the Administration's recent trade bill (the Trade Act of 1974) has been the major CIEP accomplishment in the trade area. The CIEP provided the forum for the very large number of departments and agencies having some direct interest in the wide-ranging trade bill. In chairing the interagency group making policy decisions on the bill's contents, the Council successfully did that which it was designed to do. On the negative side, however, is the contention that the office of the President's Special Representative for Trade Negotiations (STR) would have been equally effective in producing a bureaucratic consensus on the trade bill's provisions. Indeed, STR had primary responsibility for coordinating both the technical drafting efforts and the preparations for the multilateral trade talks expected to follow the bill's passage. It further appears that CIEP's authority for coordination of trade bill policy decisions devolved from George Shultz's specific decision that CIEP should do this. In other words, there was no automatic bureaucratic drift or inclination to use the CIEP mechanism in this instance. In addition, some interviewees suggested that timing played a major factor in this decision, in that in

1972 when Peter Flanigan lobbied heavily for such a CIEP role, STR was undergoing a change of leadership.

The other significant use of the CIEP for evolving a trade policy was the initiation of the Sugar Study Group in the fall of 1973 to plan Administration objectives and strategy in connection with the forthcoming renewal of the Sugar Act in 1974. (A major element in the Act is national import quotas allocated to various sugar exporting countries, all of which in the past guaranteed prices above prevailing world prices.)

b. Monetary and Finance

In general, the CIEP performance in the monetary and financial sectors has been nominal, for in these areas the Treasury Department has continued to exert dominance. During the relatively brief period when it had a senior financial specialist on its professional staff, the CIEP participated in Treasury-chaired interagency forums, especially the "Volcker Group." Such participation, however, was in the form of being another bureaucratic actor rather than a leader or coordinator.

The CIEP did initiate and coordinate one policy discussion in this area. The "International Financial Working Group," a temporary, *ad hoc* group created and chaired by the CIEP, discussed proposals to alter certain U.S. banking regulations to make the U.S. financial markets more attractive to foreign investors. When the CIEP financial specialist who led this group resigned in 1974, the exercise and the group were suspended.

c. Investment

CIEP's greatest policy coordination accomplishments have come in the foreign direct investment area. The CIEP staff has coordinated bureaucratic efforts to draft official policy positions on three major aspects of the foreign investment issue: foreign expropriation of U.S. direct investments, foreign direct investment in the U.S., and preparation for the OECD working group on multinational corporations. The CIEP is still hopeful of creating (and chairing) a permanent inter-agency working group on multinational corporations, despite unsuccessful efforts in the past to do so. In short, the CIEP has played a critical role in assembling the appropriate bureaucratic actors to prepare for and to consider the evolving international investment issues that require a policy consensus.

d. Economic Assistance

The major CIEP initiative in this area was an assignment to an outside consultant to prepare a report, produced in mid-1973, which considered

new aid initiatives. CIEP-led discussions were subsequently convened on a possible restructuring of American aid efforts. However, the report was poorly received by CIEP as well as by the bureaucracy, and the follow-up efforts soon were dissipated.

The CIEP has played a relatively unimportant role in coordinating development policy and projects. Three existing interagency groups still have responsibility for P.L. 480 food aid, bilateral development loans, and Export-Import Bank and multilateral loans respectively. In addition, the CIEP notwithstanding, the Congress in 1973 created a new high-level aid policy coordinating group, the Development Coordinating Committee.

e. Food and Energy

There is no evidence that the CIEP to date has taken a leadership role in, or provided the discussion forum for, adopting U.S. positions on international energy or food problems. For the latter, the State, Agriculture, and Treasury Departments have shared responsibility, operating within the loosely organized Committee on Food. For energy, a variety of *ad hoc* organizational efforts have been instituted, the latest being the Energy Resources Council recently created by President Ford. It should be recalled, however, that neither energy nor food aid are strictly international economic issues.

The above review is not designed to represent a definitive list of CIEP's activities or accomplishments. For example, a number of study and research efforts are not mentioned. In an attempt to present a more complete picture of past CIEP efforts in policy formulation, the subject matter of CIEP's principal internal documents (Study Memoranda and Decision Memoranda) is listed in Annex A.

III. ORGANIZATIONAL OPTIONS FOR CHANGE

The CIEP, as currently constituted, has as its legal basis Public Law 93-121, approved October 4, 1973. The bill, which expires on June 30, 1977, confers no specific authority to the CIEP, nor does it impose any specific requirements, except for the submission of an annual international economic report to Congress. Given this legislative vagueness, the CIEP in practice is what the White House and the Cabinet Departments make it.

A number of changes in CIEP's organization could be considered; some probably require amending the present legislation. The possibilities for organizational change include:

1. The existing CIEP mechanism would be preserved, but strengthened by internal changes, which might include:

- Proclamation of a clearer Presidential mandate for CIEP roles in policy formulation and coordination jurisdiction in a few select areas of international economic policy where line departments have not already established clear supremacy, *e.g.* investment.
- Emphasis on the planning, or issues formulating role, in effect staying one step ahead of the policy formulation and implementation stages.
- Emphasis on an evaluation role,—being one step behind the policy implementation stage.

Advantages: Requires a minimum of actual organizational change; would afford CIEP an opportunity to build on its strengths and previous accomplishments, both of which are narrowly based.

Disadvantages: Continued absence of a comprehensive White House coordinating forum for all aspects of international economic policy; continued need for CIEP to pick and choose its initiatives on an *ad hoc* basis.

2. The President could order that all important international economic policy formulation and coordination efforts would have to be conducted within the CIEP and all initiatives would have to be approved by the senior professional staff of the CIEP.

Advantages: Fits a fairly strong White House model of government organization; would provide a highly centralized focus for international economic policy deliberations.

Disadvantages: Risks excessive concentration of power and potential bottlenecks within the White House; separating line departments from responsibilities in the policy formulation and coordination processes could make policy execution less efficient and reduce morale in operating departments.

3. The CIEP as a separate entity would be abolished, and the President would appoint a Deputy to his Assistant for National Security Affairs, having professional economic or business credentials, personal access to the President, and central responsibility for the coordination and Presidential staff functions pertaining to international economic policy. (This was the recommendation made in the integrative chapter of the study on international economic policy decision-making conducted for the Commission staff's research program by Ed Hamilton, *et al.* of Griffenhagen-Kroger; and this was in fact the structure in the Kennedy and Johnson White Houses.)*

Advantages: Streamlines and concentrates international economic policy responsibility within the White House foreign policy operation; abolishes an

organization (CIEP) which has fallen short of accomplishing the objectives for which it was created; retains authority in the line departments and agencies.

Disadvantages: Discourages international economic policy from being given status of an independent concept; places White House jurisdiction for international economic policy within the NSC, an organization having an essentially national security perspective; insulates international economic policy from the President's domestic economic policy advisors; reduces the head of the CIEP-successor operation to a "trouble-shooter"; terminates any real possibility of systematic White House coordination efforts in international economic policy.

4. The CIEP should be abolished as a separate entity and incorporated into a broadened, reorganized, and renamed National Security Council. Such a White House council would be structured to reflect the differences in foreign policy priorities (namely the increased importance of economic factors) since the NSC was initiated in the immediate postwar period.

Advantages: Same as Option three, above.

Disadvantages: Precludes international economic policy from being given the status of an independent concept; insulates international economic policy from the President's domestic economic policy advisors; reduces the head of the CIEP-successor operation to a "trouble-shooter"; and terminates any real possibility of systematic White House coordination efforts in international economic policy.

5. The CIEP would be abolished and incorporated into the international operating arm of the President's most senior White House economic group. This already has taken place in principle, first under the Nixon Council on Economic Policy and currently under President Ford's Economic Policy Board. A modification of this recommendation would be to incorporate CIEP into another White House economics office, such as the OMB or the Council of Economic Advisers.

Advantages: Affords international economic policy coordination a foothold in a major power center; makes international economic policy coordination more responsive to the most senior Presidential economic advisers; streamlines and concentrates international economic policy responsibility in the White House.

Disadvantages: Precludes international economic policy from being given the status of an independent concept; places White House jurisdiction for international economic policy within an organization having an economics perspective; insulates international economic policy from the President's foreign policy advisors; would tend to downgrade CIEP's role as a coordinator and emphasize its role

*This study may be found in Appendix H, Vol. III.

as advisor; would be dependent on there actually being a White House forum for the President's most senior economic aides (the Economic Policy Board has no legislative legacy or base).

6. Abolition of the CIEP and transfer of its duties to a single Cabinet Department, *i.e.*, State or Treasury.

Advantages: Would leave responsibility for international economic policy coordination in a line department with major responsibilities in this area.

Disadvantages: Danger of excessive concentration of power and bottlenecks in the department given such responsibility; danger that department would prejudice objective coordination by introducing its own bureaucratic biases and perceived self-interests into the formulating and coordinating processes; absence of any Executive department with parallel competence in both domestic political-economy issues and in foreign policy; strenuous opposition to one department's assuming such a position by all other departments with interests and responsibilities in international economic policy.

7. The CIEP would be abolished and replaced either by statute or executive order with a restructured and more comprehensive coordinating group independently based within the Executive Office of the President. This newly established "Foreign Economic Policy Board" (FEPB) would be headed by a Director who would serve mainly as the President's staff advisor in international economic affairs; he would not have any line function.

The operating responsibilities of the Board would rest with a small number of "Associate" or "Special" Directors, each with specific policy responsibilities. At least four of them would automatically assume this part-time position by virtue of their position as senior economic policymakers elsewhere in the line departments and agencies. These four "double-hatted" officials would be:

- 1) the Board's chief of trade policy formulation and coordination activities would be the President's Special Representative for Trade Negotiations (STR);

- 2) the Board's international monetary and financial policy responsibilities would be directed by the Treasury's Under Secretary for Monetary Affairs;

- 3) the head of economic assistance policy activities would be the Under Secretary of State for Economic Affairs; and

- 4) the head of the Board's responsibilities for natural resources, energy, and national security policies would be a senior staff member of the NSC.

All of those officials could serve in two posts simultaneously, since their Foreign Economic Policy Board (FEPB) activities would require only a

minimal increase in the interagency efforts in which they already are engaged.

A single full-time FEPB staff officer would be assigned to each of the four "double-hatted" officials to support the Board's responsibilities. All interagency deliberations on trade, finance, aid, and national security policies would be chaired by these four officials (or alternates) wearing their relatively "bureaucratically neutral" FEPB hats, not those of the Department or agency they work for, *i.e.*, meetings would be convened and chaired by a White House coordinating office.

The final two "operational" directors would work exclusively for the Board. They would direct the Board's formulation and coordination responsibilities for foreign investment policy and secondly for economic information, the latter including economic analysis, intelligence, research, and planning. These two policy sectors seem especially appropriate for purely White House-level coordination because of their unusually high propensity to cut across agency lines.

The presumption is made that on policy issues of major significance and in instances of prolonged disagreement, the appropriate Cabinet members would become involved to certify or arbitrate the deliberations of the Board. It is also presumed that the question of the forum for convening the required Cabinet members is *essentially irrelevant*. They could be convened on a purely *ad hoc* basis, or as a meeting of a senior White House forum (*e.g.* the Economic Policy Board or National Security Council), or as an Executive Committee of the Foreign Economic Policy Board.

There are two prior prototypes of such an arrangement. The first was former Treasury Secretary George Shultz's role as President Nixon's chief economic policy advisor. In some cases, Shultz, acting in his White House capacity, overruled the Treasury Department's position. Secondly, the Senior Review Group of the CIEP at present consists of the Under Secretaries (or their equivalent) of member Departments; however, they function only in the capacity of representing their Department's point of view.

It is difficult to say whether such a "Foreign Economic Policy Board" should be created and operated by special statute. As envisioned in this paper, it is designed only to convene the responsible officials in the operating departments and agencies; it is not designed to absorb any of the authority of the line agencies. It would have no specific or separate "power." However, there is an *implied* authority in being a central coordinator. It might therefore be good politics to obtain a specific Congressional approval of such an operation, especially if there would be Congressional changes to accommodate or parallel the creation of the FEPB in the Executive

Branch. In addition, the Congress might insist on the right to confirm the Executive Director of the FEPPB, especially since the CIEP legislation was recently amended to provide this authority.

Advantages: Would effectively bridge two basic, but conflicting realities: (1) the need for a coordination forum based in the White House to assure that all interested voices are convened at the right time on the right issues and are given an opportunity to speak out, and (2) the continuing retention of real power by the operating departments and agencies. The arrangement also would provide a comprehensive forum for international economic policy formulation, coordination, and evaluation which would have clear lines of responsibility and would provide a reasonable guarantee of checks and balances against domination by a single bureaucratic actor or point of view; would encourage a broad, national interest point of view by both economic and foreign policy officials without attempting to transfer power from operating agency officials to a White House coordinator; would treat international economic policy as an independent force, not in the context of either domestic economic policy or foreign policy; would recognize that routine coordination of international economic policy is realistically done at the levels of Under Secretary or below; would assure good communication between the policy formulation and implementation processes.

Disadvantages: Perhaps too cumbersome a device for a President who prefers strong White House control or a "star system" in the senior levels of Departments and agencies.

IV. INTEGRATING THE WHITE HOUSE COORDINATOR WITH OTHER INTERAGENCY COORDINATING MECHANISMS

In connection with the options suggesting retention of an independent White House coordinator of international economic policy (options number 1, 2, and 7 above), the following change should be considered:

All existing interagency policy mechanisms and all important technical coordinating committees and groups would be moved under the aegis of—be chaired by—the White House's international economic policy coordinating mechanism. In effect, all existing interagency groups would become subcommittees of the senior international economic policy coordination unit in the White House. For example, all of the four interagency groups associated with economic aid (the National Advisory Council, the Development Loan Committee, the Development Coordinating Com-

mittee, and the Interagency Staff Committee) could be integrated into the senior coordinating operation. The various interagency trade committees and groups would be incorporated in the same manner. (A list of all of the major interagency coordinating groups is included in Annex B.)

This proposal could be carried one step further. *All of the many current interagency groups that were being brought under the aegis of the White House international economic policy coordinating mechanism would be consolidated into a small number of "master" interagency working groups on the basis of subject matter. The White House coordinating mechanism, in effect, would be composed of these "master" interagency groups, each of which would be charged with all coordination responsibilities in one of the major international economic policy sectors respectively: trade, investment, finance-monetary, resource transfers, etc. Each of the groups could be organized on a vertical hierarchy of three levels: Under Secretary, Assistant Secretary, and staff level. The merit of this idea is to reduce the myriad of existing interagency mechanisms, many of which overlap in responsibility or are obsolete. It is also envisioned that any comprehensive White House international economic policy coordinator would schedule and chair the ad hoc interagency groups that periodically become necessary. (As indicated above, no formal group is considered necessary to convene a select number of Cabinet officers.)*

The streamlining of the vast network of interagency groups would be a virtue in itself, since it would make more clear the lines of authority and reduce the number of meetings required by harried international economic officials. By systematically incorporating these mechanisms into a larger White House coordination effort, even clearer lines of responsibility could be drawn and a better system of checks and balances on bureaucratic bias could be achieved by putting all the chairmanships within a White House operation.

These interagency groups would report to the heads of all responsible departments and agencies (depending on the issue), either through the NSC, the Economic Policy Board (or its successor), or through the FEPPB or any other Cabinet-level White House coordinator of international economic policy. Such an arrangement should not be viewed as an attempt to deny that the views of one or two departments will frequently dominate certain issues within their jurisdiction. Rather, the arrangement mainly should be seen as a modest attempt to rationalize the maze of coordinating groups and to minimize bureaucratic parochialism stemming from the domination of a single department on any given issue.

There are two other basic recommendations I would make for all instances where an independent White House coordinator of international economic policy is advocated:

- 1) A clear and implemented Presidential mandate; and
- 2) Appointment of an Executive Director with whom the President will have close rapport and who has a considerable grasp of the substance of international economic policy problems.

ANNEX A

Subject Matter of Principal CIEP Documents

I. STUDY MEMORANDA

Of the thirty-seven CIEP Study Memoranda initiated since March 8, 1971, all but five have been completed or overtaken by events. A summary of the subject matter is given below:

a) General Topics include:

- Development of an International Economic Strategy for 1971-72
- U.S. in a Changing World Economy

b) Trade

- | | |
|---------------------------------|----------------------------------|
| —East-West Trade | —Export Expansion |
| —General Tariff Preferences | —UN Committee on Trade |
| —Trade & Investment Legislation | —U.S.-PRC/USSR Trade Regulations |
| —Agricultural Trade | —Export Financing |

c) Industry/Commodities

- | | |
|-------------------------|---|
| —Monies | —Uranium |
| —Natural Gas Projects | —Agricultural Commodities, including LDC's* |
| —Computers | —Tourism |
| —Research & Development | —Critical Imports |
| —Sugar | —Fishing |

d) Geopolitics

- GATT
- Canada
- European Community
- Peru
- Venezuela

*LDC's is an abbreviation for lesser developed countries.

e) Finance

- Foreign Investment in U.S.
- Adjustment Assistance
- Direct Investment
- Debt Rescheduling

II. DECISION MEMORANDA

Of the twenty-four Decision Memoranda initiated since March 1974, all but six have been completed or overtaken by events. A summary of the subject matter is:

a) Organization Structure

- Bilateral Development Assistance Agencies
- CIEP

b) Commodity/Industry

- | | |
|--------------|---------------------------|
| —Grains | —Liquid Natural Gas |
| —Sugar | —Computers |
| —Footwear | —Research and Development |
| —Jet Engines | —Critical Materials |

c) Geopolitics

- | | |
|------------------------|-------------------------------|
| —U.S. and Soviet Union | —Lend-Lease with USSR |
| —U.S. and PRC | —European Community |
| —U.S. and Poland | —Eastern European Communities |
| | —GATT |

Source: CIEP

ANNEX B

Major Interagency Groups in International Economic Policy (As of January, 1975)

I. MONETARY

International Monetary Group (formerly the "Volcker Group")

II. TRADE GROUPS

Trade Expansion Act Advisory Committee
Trade Executive Committee
Trade Staff Committee
Trade Information Committee

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Steering Group for Trade Negotiations
President's Committee on East-West Trade Policy
Committee for Implementation of Textile Agreements
Adjustment Assistance Advisory Board
Export Administration Review Board
President's Interagency Committee on Export Expansion

III. ECONOMIC ASSISTANCE GROUPS

President's National Advisory Council on International Monetary and Financial Policies (NAC)—

(Also has Export-Import Bank responsibilities)
Development Loan Committee (DLC)
Interagency Staff Committee on PL 480 (ISC)
Development Coordinating Committee (DCC)

IV. MISCELLANEOUS

Economic Defense Advisory Committee
United Nations Economic Committee
Committee on Food
Committee on Energy
CIEP Interagency Committee on Expropriations